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MAGAZINE

SEP 23 1947

CRÉDIT

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See Page 5

SEPTEMBER 1947

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NATIONAL ASSOCIATION OF CREDIT MEN

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Editor and Manager
Richard G. Tobin

Associate Editor
Leslie E. Jones

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School Bells

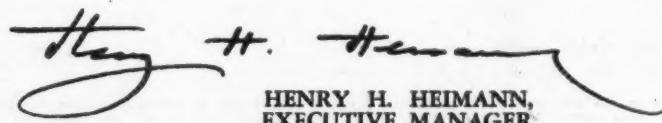
SHM This month, again, the number of men, women and children entering our schools and colleges will be greater than ever before. From the kindergarten tot to the seasoned veteran, each and every one will experience the process of education.

The destiny of America, if not the world, may turn on the type of education they receive. Are these multitudes of students going to be made to understand that they constitute the five per cent of the world's people who really enjoy freedom? Is it going to be emphasized to them how valuable a possession this is? They were born to it; from the cradle they knew nothing else; it was a part of their life. Are we going to allow them to continue to believe it was a natural heritage or are we going to tell them how it was won in blood and sacrifice? Are we going to impress on them the fact that they too may be called upon to make sacrifices and to suffer to preserve this noble heritage, many of them perhaps for a second time?

Specifically, are we going to teach them of the great human service of men like Ford, Edison, and Burbank, or are they going to be told these were men of wealth rather than men of accomplishment? Are we going to emphasize the service of these men to humanity? Are they going to be told that it will be their responsibility to preserve the nation so as to make possible more such benefactors? Are we going to extol the simple virtues of thrift, honesty and integrity exemplified in these men?

The opportunity to rise by one's own effort is the hallmark of freedom. The maintenance of respect and character in all stations of life, be you laborer, industrial giant, scientist, farmer or doctor, is a common attribute of life in a free country. If we make our program of education a sound one and stress the need of sound human relations, we shall then be building a firm foundation under the freedoms we now enjoy. What is more important, we will then be in a position to expand this five per cent of the world's people now free and, in so doing, we will build to a higher civilization.

Nothing is more important in the world and to the world than the things this American student body is to be taught.



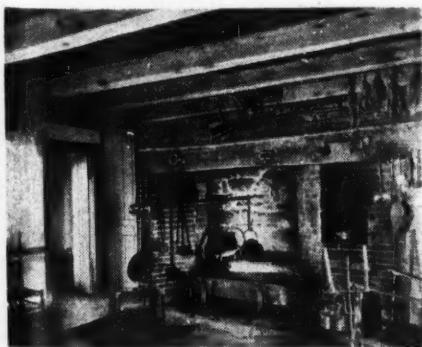
HENRY H. HEIMANN,
EXECUTIVE MANAGER

FORD MANSION

WASHINGTON'S HEADQUARTERS IN THE "MILITARY CAPITAL"

"EIGHTEEN belonging to my family and all Mrs. Ford's are crowded together in her kitchen and scarce one of them able to speak for the colds they have caught." Thus General Washington wrote to Nathanael Greene of his headquarters in the Ford Mansion during the winter of 1779-80, described by some as the coldest of the century.

Widow of a wealthy powder-maker, Mrs. Theodosia Ford offered Washington her home when he sought an official headquarters in Morristown, New Jersey, at that time the "military capital of the United States." Only two rooms were retained for her four children and herself, all the others being turned over to General and Mrs. Washington and his "family", as he liked to refer to his personal staff. One of his aides billeted there was Alexander Hamilton, then courting Betsy Schuyler. In this home many important men of the day convened with the Commander-in-Chief.



The house gives an authentic picture of Colonial life



The Historical Museum behind the mansion displays a diorama with three-dimensional models depicting Lafayette arriving with news of French aid for the American cause

Washington made the Ford house his headquarters for over six months. There is evidence that Martha in particular enjoyed her stay there in spite of the discomforts and ever-present danger. As for Mrs. Ford, the patriotic widow no doubt felt privileged to share her home with the Commander-in-Chief and was amply recompensed by the great man's kindness. Every morning on his way downstairs to breakfast he used to stop and inquire about her son Timothy who was ill for many months.

With the coming of spring, conditions improved and the household was further cheered by the arrival of Lafayette with his joyous news of French assistance.

Winter encampment at nearby Jockey Hollow made this home a logical headquarters.

Colonel Jacob Ford erected the house about 1774 and in 1776, with the aid of a loan from the Provincial Congress, built a powdermill not far away which turned out "good powder and in useful quantities." Not long after it was put in operation, however, having caught "mortal cold" on military duty, Colonel Ford fell from his horse while on parade and died of pneumonia a few days later.

The Ford home is now part of the Morristown National Historical Park administered by the National Park Service of the U. S. Department of the Interior.

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NEED FOR MERCHANDISING CREDITS

House Policies Must Be Sold to Customers

by DAVID H. HOTCHKISS

Credit Manager Petrequin Paper Company, Cleveland, O.

 The fate of the nation lies in the hands of the Credit Executives.

The Credit Manager in his capacity as the guardian of the nation's profits is today confronted with a problem the magnitude of which might almost be beyond our comprehension. We're sitting right on top of a powder keg—a powder keg that has been fitted with a detonator and a lighted fuse. If this nation is to avoid an economic explosion, then the lighted fuse must be clipped, the detonator removed from the powder and the powder itself made harmless. No, I am not being pessimistic—quite the contrary, I feel very optimistic. I am optimistic simply in the belief that our great credit fraternity does have the ingenuity, the foresight, the training and necessary powers of understanding and reasoning to forestall any such major calamity.

At no time in the history of our nation have we been confronted with a period that is so charged with the need for caution as is the period that lies immediately ahead of us. I'm sure that there is no need of mentioning to you the many problems that are confronting industry today. I think I can safely say that without exception, there isn't a daily newspaper printed that doesn't carry some article or editorial in its pages telling about rising prices, shortages, strikes, new business ventures, changes in corporate structures and failures in still other businesses. These are all factors that we as credit men must consider in the discharge of our tasks.

Importance of Credit Executive

The Credit Executive is the only person within his organization who can have not only an intimate knowledge of his own business but also a thorough understanding of the industries that are served by his organization. No other person in the establishment enjoys the opportunities that are those of the Credit manager in acquiring knowledge of trends and happenings in the outside business world. The credit man is truly the center of attraction when it comes to knowing what is going on in industry—and it is because of his intimate knowledge of business that I am charging him with the responsibility of neutralizing the "booby-trap" that lies in the economic road ahead of us.

I think that we're all perfectly aware of the fact that the primary objective of any business is that of making a profit. Furthermore, the ability of a company to make a profit is very largely dependent upon the manner in which that company's credit policies are formulated and carried out. It has often been said—and correctly so—that the credit department can either make or break an organization. Our interest naturally lies with the former accomplishment—that of "making" our

company, and the successful manner in which that is done will in turn contribute to the overall thing that we're striving for—a healthy and robust national economy. But how, you ask, can we accomplish such a goal, especially in the face of what appear to be such overwhelming odds?

That brings me down to the crux of my discussion of the subject of "Merchandising Credits." The subject in itself could very easily encompass the whole field of credit with all its ramifications, details and technicalities, but such a detailed presentation is naturally quite out of the question at this time. Rather, I'd like to try and enlarge upon just three or four topics within the particular field of credits.

Merchandising Credit Policy

Perhaps one of the most essential factors that make for a successful credit policy is the manner in which that policy is merchandised. After all, if the sales department can promote an appealing merchandising program that will enable it to drum up more business—then why shouldn't the credit department do a sales job for itself, too?

It's just as important for the credit department to sell itself to the customers as it is for the sales department to sell its merchandise to those same customers. Am I by any chance referring to "terms" when I speak of the need for merchandising credits on the part of the credit department? Indeed I am. Ah—but you say—it's perfectly alright to sell merchandise—but never, never sell credit terms. Never sell credit terms? Selling credit terms to our customers is perhaps the most important part of our job! No, I don't mean that we should sell just any old type of terms—but rather we should make it one of our foremost duties to sell our customers on the idea that our terms are as vital a part of the contract as is the price and quality of the merchandise being sold.

There was a time, and that not so very long ago, when about all you had to do was to hand the customer an invoice with your left hand and pick up his money with your right. Perhaps I'm over-simplifying the situation—but I'm sure you know what I mean. There just wasn't any credit problem. Times have changed though since then. All you have to do is to refer to your own ledgers, your Credit Interchange Reports, or the financial pages of your local papers to find that things aren't quite what they used to be.

Must Sell "Term Consciousness"

The average age of accounts receivables throughout the nation is slowly but surely increasing—thus indicating the increasing difficulty of collecting accounts.

The situation may not appear to be particularly bad right now—but unless a concerted effort is made to curtail the present trend then I shudder to think of what will be in store for us after the smoke has cleared away. A thorough investigation of all our accounts, both old and new, will undoubtedly be of immense value to us in helping to keep our fingers on the situation, but that in itself isn't going to be quite enough. We must in addition make our customers "term conscious".

Human beings are creatures of habit. If a person is subjected to a certain set of associations for a long enough period of time he'll eventually acquire certain habits within that field of association. It doesn't matter how cold and calculating a man might be in the pursuit of his business, he's still a human being—despite what our personal opinion of the man might be. Being a human being and therefore subject to that thing called habit—then why shouldn't we try to cultivate in him the one habit that we as credit men would most desire him to have—that of always living up to our terms of sale.

The procedure required for the establishment of such a habit isn't a particularly easy one either. I only wish it were possible for me to give you some magic formula which, if applied, would result in all your accounts being discounted—and without the loss of any business. If anyone happens to know of such a sure-fire method—I'd certainly like to hear about it.

You Make 30-Day Investments

The one thing that we do need most though is a vigorous program for Merchandising Credits. A program that is developed for the purpose of selling the customer on the importance of staying within certain credit terms or limits. Just the mere fact that your company has established terms of, say, net 30 days, doesn't mean that you're simply allowing the customer so much time before he has to pay for his merchandise. No, it goes a lot further than that. What you're actually doing is making a definite investment in that business for that period of time. In a sense, you've actually gone into partnership with your customer. You've agreed to finance part of his business for that one month. Now, I just can't conceive of anyone making an investment without getting some assurance that he's going to get a satisfactory return on that investment. In the case where you're selling on 30 day terms you want to have the assurance that your investment will be repaid within that specified time.

Now, just how are we going to go about setting up this program for selling customers on the idea of meeting our credit terms? The necessary components of our sales campaign could be likened unto the four walls of the conventional type structure. In this case I want to think of these components or walls, if you will, as being:

1. Your Own Credit Department
2. Your Salesmen
3. Your Industry as a Whole and
4. Your Credit Association.

The careful thought and workmanship that is put forth in the building and development of these four

BE PREPARED FOR FIRE!

National Fire Prevention Week, Oct. 5-11

1. KNOW WHERE THE NEAREST FIRE BOX IS

Many buildings were destroyed by fire because nobody knew where to turn in the alarm.

2. LEARN HOW TO OPERATE FIRE EXTINGUISHERS

Prompt use of fire extinguishers and other emergency equipment put out 60 per cent of all fires, Fire Protection experts say.

3. CONDUCT FREQUENT FIRE DRILLS

It's good insurance to teach your employees what to do when a fire breaks out. In industrial plants this is a "must."

4. RECOGNIZE AND REMOVE FIRE HAZARDS

Some of the most dangerous fire hazards are the most easily removed. Be on the lookout for oily rags, rubbish accumulations, frayed wires, improper fuses, faulty furnace pipes and discarded matches.

5. BE ON THE ALERT FOR FIRE

Fire strikes when you least expect it. All blazes are small at the start. More can be done in the first five minutes to fight fire than in the next five hours.

walls will result in their upholding a strong yet fair and equitable credit policy.

First of all let's take up the part that the Credit Department is to play in this structure. For the sake of simplicity let's assume that you have been working on an order for a new account and that you've already obtained credit information from sources other than the customer himself.

Personal Interviews Important

Fortunately for us, we've been able to make a good deal of progress in the economics of marketing but despite these advances we can still put to effective use the "personal interview". These personal calls surely can pay big dividends. The very fact that you did take a little time to sit down and talk to a customer and to become personally acquainted with him will promote no end of good will and understanding. Naturally the approach should be made on a friendly basis. You're not going there to cross-examine him. You're going there simply to become acquainted (and incidentally, of course, you're going to learn a little more about the customer). There isn't a person on earth who doesn't appreciate a square deal and if the credit manager can leave with the customer the impression that he (the customer) is going to be treated fairly and squarely, then the Credit man or woman has done a good selling job.

The ability to develop good-will and a sense of mutual understanding with one's customers is without doubt the prime accomplishment insofar as the credit department is concerned. It's insurance—credit insurance—of the highest caliber. The bed-rock foundation for good business in the future has been established.

The next task that befalls the Credit Department in its program for "Merchandising Credits" is that of getting the salesmen to become credit-conscious. Herein we are developing and building up the second wall of our structure. Sometimes that job turns out to be a long hard pull—but it must be accomplished if the house is to prosper. Of what earthly use is it to have certain terms of sale printed on your invoices and statements if the salesmen are going to say to a prospective customer, "Well, Ed, our terms are net 30 days, but since you're having a bit of trouble right now, I'm sure that it'll be alright for you to take 60 or 90 days extra, so don't worry about having to pay for the merchandise right away". It's things of that nature that really put the Credit Manager behind the proverbial "eight-ball." Start off on the right track and you won't find yourself being shunted off onto the "Bad Debt" track.

Sales Cooperation Required

Most certainly the credit policy should not be a will-o-the-wisp proposition. Your terms were arrived at only after the most exhaustive studies had been made to determine just what was best for your particular type of business and trade. Is it proper then that they should be changed for every Tom, Dick and Harry that comes your way? Absolutely not. That is certainly not the way to get customers to like you. If you're to remain on good terms with your customers then your salesmen will have to be shown exactly how they themselves can profit from an understanding of the credit department's policies. Cooperation between Sales and Credit is a must. Point out how the salesman could save himself a lot of valuable time if he'd just clear with your department before going out to contact a new prospect.

After all, what percentage is there in calling on a prospect who will inevitably be classified as a C.O.D. account by the Credit Department when the salesman could just as easily be spending his time on a more profitable account. And conversely—if the salesman is going to spend two or three hours selling a good prospect—then why shouldn't it be in order for him to spend an additional five minutes with the customer to make certain that there won't be any misunderstanding about the terms of the sale.

Now let's go just one step further in this matter of "Merchandising or Selling Credits" to the Salesmen. As we've stated before, the primary objective of a business is to make a profit, and it's the primary responsibility of the credit man to guard those profits. If that be the case, then perhaps we should be quite certain of the fact that it is perfectly well understood that the sale in itself does not bring forth the profit and neither is the sale a complete one until the merchandise involved has been paid for. After all, the salesman's value to the house is determined entirely by the profit he gains for the house.

There are a number of instances where salesmen feel that the more accounts they can open the better their showing will be. Up to a certain point that may be true—yet on the other hand we as credit men know very well that it isn't necessarily the number of accounts, but rather it's the quality of the accounts that goes to make up a good and profitable business. As a general rule the salesman spends far more time in traveling from one point to another than he does in actual process of selling the customer. It stands to reason then that the more time he can devote to actual selling, the more profitable will his efforts be—not only to the house but to himself, too.

In some instances you'll find that as many as half of the customers being contacted by a salesman are producing but 10% of that man's volume of business. Wouldn't it be to his advantage then—and your's, too—to drop perhaps half of those in that low volume group and devote that extra time to the more productive accounts that remain? By pointing out such things to the salesmen you are not only helping your house to be more profitable but you are also contributing something toward your own program for "Merchandising Credit". I certainly don't advocate the policy of selling only to "Triple A" accounts but I do feel that there is a limit to the number of accounts that you can carry on your books. I've often heard this particular argument put forth by management, "Despite the fact that the Blank Company is slipping, we really should approve that order for \$500.00 because after all we have sold them \$5000.00 worth of merchandise during the past year and have therefore made a profit on that account, so we can afford to take a chance and perhaps lose on this particular sale." Frankly, gentlemen, I just can't see eye to eye with that line of reasoning.

Just for the sake of argument let's assume that the particular house in question enjoyed the wonderful position of being able to earn a *net* profit of 10% on its sales. That means then that on the \$5000.00 worth of business that they transacted with the Blank Company during the past year they ended up with a total net profit of \$500.00. Is it logical then to take the attitude that the company could afford to lose on this new sale for \$500.00? One bad debt has wiped out not only the profit for the whole year from the Blank Company but has also made null and void all the effort and time that the salesmen has spent on that account during that past year. To put it another way at a net profit of say 5%, a \$500.00 bad debt loss will cancel all the profits that had been accrued from 20 previously successful sales of \$500.00 each. To put it still another way, after all that time and effort, all the house has been able to accomplish is to break even on the deal! If the salesman can be made to feel that he himself shares in the responsibility of a bad debt loss that occurs in his territory then you have indeed gone far toward your goal of Merchandising Credits with respect to Salesmen.

The next phase of this subject that I'd like to touch upon for a moment is that which takes in the Industry as a whole—the third wall of our structure. The part that Industry can play in this overall policy of Merchandising Credits can, I think, be likened unto a

(Continued on Page 26)

CREDIT MANAGER, A PROFESSIONAL

A Discussion as to Why He Is So Important

by ADAM F. PAHLE

General Credit Manager, Devoe & Reynolds Company, Inc., New York

FM The seller's market is rapidly being replaced by a buyer's market. Dealers in many lines are cancelling back orders because of rising inventories and because they are concerned about prices. A sudden price decline can mean substantial inventory losses. Consumers are holding back for lower prices. This all means that the days of easy sales and easy credits are over.

Sales Managers and Credit Managers must again spend all their time on sales and credits. The period immediately ahead will require all their time, attention and ingenuity.

The old team of Sales Manager and Credit Manager must be brought back into play, only this time the teamwork and cooperation must be more pronounced than ever before because the problems will be more complex. A close spirit of harmony will be imperative if constructive decisions are to be made. Both Sales Managers and Credit Managers must forget departmental selfishness and approach problems from the standpoint of what is most profitable for their companies. Only through proper cooperation and coordination can the maximum profitable distribution be obtained.

What Is Our Credit Job?

The job of a constructive Credit Manager is to help the Sales Manager choose the type of accounts which will, insofar as caution and good judgment can do it, insure the building of sales volume on a lasting and profitable foundation. Sales volume can be depended upon only as long as the underlying support of that volume is secure; in other words, sales volume can be relied upon only as long as we can depend on our accounts.

A weak credit policy makes selling easy. There are many feeble risks always looking for a credit line to keep them in business a while longer. However, this kind of policy places weak accounts on the books because it is only human nature for a salesman to follow a course of easy selling if we make easy selling possible. Good sales managers realize that building volume on questionable and feeble credit risks is unsound in that instead of building for the future we are mortgaging the future and will wake up some morning to find that volume is rapidly falling off because the weak accounts are folding up under us. Two and

two still makes four no matter how we try to gild the figures.

Let's look at a simple Profit and Loss Statement (see chart #1). We immediately see that all the figures on the statement except the sales figure are deducted from the sales figure. The sales figure, therefore, is the basis for profitable operation. Once we appreciate this important fact, then we know that if progress is to be made over a period of years, the foundation under the sales figure must be solid enough to withstand to a reasonable extent the ravages of depression and unfavorable business conditions. Note the line drawn under the sales figure. On the left the line travels downward to a minus symbol. On the right the line travels upward to a plus sign. If we want to sell, we must have buyers. If we want to increase sales, we must have more buyers or we must assist our present buyers to increase their sales so that they in turn can buy more from us, provided however that while we are obtaining the new volume we are not losing our present volume in the same ratio or perhaps faster.

CHART 1

NET SALES		500,000.
Cost of Mass Prod		140,000.
Gross Profit		60,000.
<u>MINUS</u>		
To Competition	Advertising	2,000.
Credit reasons	Delivery	3,500.
	Light & Heat	1,000.
	Insurance	500.
Liquidation	Rent	6,000.
Failures	Telephone & Telegraph	1,200.
	Stationery & Printing	1,800.
	Postage	1,800.
	Taxes	1,200.
	Bad Debts	1,000.
	Depreciation	900.
	Salaries	28,000.
	Social Security	1,100.
	Misc. Expenses	1,200.
<u>TOTAL EXPENSES</u>		50,300.
<u>NET PROFIT</u>		9,700.

Sales volume can be likened to the population of a nation. In population we have mortality and we have births. When mortality exceeds births, a nation gradually dies unless the downward trend is checked. Births in a business are the new customers we attract to our products and sell. Mortality is the outlets we lose. Nations spend millions for scientific research and medical facilities to insure healthy births and to keep us in good health during our lifetime. These millions are being spent because nations realize that a healthy population makes a wholesome and prosperous country. It is no different with a business. A healthy foundation under our sales volume comprised of carefully selected outlets makes a sound and prosperous business.

As constructive Credit Managers, what is our place in this picture and what can we do to assist the Sales Manager to protect his volume? First of all, new accounts should be selected carefully. Borderline risks should be thoroughly investigated. A borderline risk to justify credit approval should be operating profitably because the only justification for approving a borderline risk, except in the case of one-time sales, is that the risk may develop into a desirable outlet. A better term for borderline risks would be "Gambles for Volume," because that is substantially what they are.

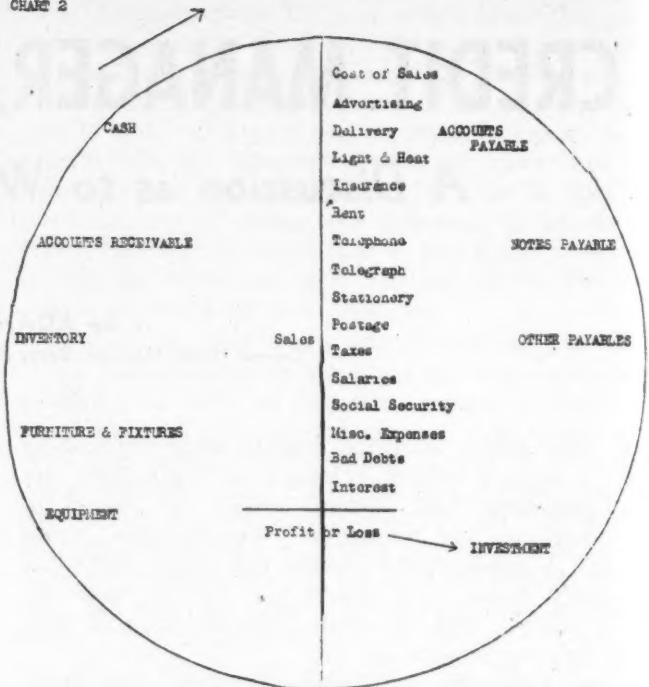
In choosing accounts we should always bear in mind that account mortality is expensive. The bad debt loss is usually the smallest part of the loss, assuming that total bad debt losses are held within a reasonable margin. The greater loss is the loss in gross profit on the lost volume until the account is replaced. Also, sales effort costs money. It is uneconomical to accept weak risks only to find that within a short time the account must be restricted and that the Sales Department has its work to do all over again to cover that particular town or territory.

We Must Heed the Warnings

How about our existing accounts? Failures are increasing; 957 in 1947 to April 24th compared to 338 for the same 1946 period. Now is the time to thoroughly revise and review our credit files. Late Balance Sheet figures should be obtained on all major accounts, either through mercantile agencies or by direct request. Comparative Balance Sheets should be prepared to determine whether an account is operating profitably or losing money. While making this review we should lay aside the files on the accounts which we have reason to believe will pass out of the picture. Those accounts should be discussed with the Sales Manager so that he can take steps to replace the outlets before the existing volume in these territories dries up.

You, as a Credit Manager, know more about the financial condition of your company's accounts than anyone else in your organization. It is, therefore, your job to keep the Sales Manager informed on outlets which are likely to fail, so that prospective holes in those sales territories can be filled. Then, too, in studying the Comparative Balance Sheets we will find some important outlets slipping into the red. We

CHART 2



certainly want to perpetuate these outlets, therefore we cannot afford to sit idly by and allow the downward trend to continue, unless we want to lose accounts difficult to replace and in addition, probably suffer sizable bad debt losses. Obviously constructive advice and guidance is necessary to check or reverse the downward trend.

What Makes a Business "Go"

What makes a business slip? To obtain the answer to this question, let's look at another chart (see chart #2) and find out what makes a business go. Here I have tried to combine a Profit and Loss Statement and a Balance Sheet in an endeavor to illustrate the movement of the invested dollar in a business. In a going business as we sell merchandise, the merchandise leaves the Inventory Account at cost values and moves into the Cost of Sales Account; simultaneously the sales value of the merchandise sold moves into the Sales Account and to Accounts Receivable. As the Accounts are collected the money flows into the Cash Account and continues on around the circle, picking up our expenses and our obligations. The object of doing business is that as the dollar makes one complete circuit we have a little left out of the sales dollar to deposit into the Capital Account or "kitty" in the shape of Net Profit, either to increase the working capital in the business or for disbursement to the owners. If the total of the cost of the merchandise sold and expenses is more than what we obtain from sales, then every time the dollar goes around we must take enough out of the "kitty" to make up the difference. If this trend continues it won't be long before the "kitty" is empty and the business is broke. Likewise, if the dollar gets "stuck" in Accounts Receivable because accounts cannot be collected or in Inventory because of obsolete or dead merchandise, these dollars,

too, must be replaced from the "kitty." If we want to make the "kitty" grow, we must feed it by operating profitably and by safeguarding our investment in Accounts Receivable and Inventory.

As we study this illustration, we learn that there are five important major factors which must be definitely controlled if a business is to operate successfully. These factors are:

1. Sales Promotion
2. Gross Profit Percentage or Price Control
3. Expense Control
4. Control of Receivables
5. Control of Inventories

A Business Must Earn a Profit

Obviously sales must be sufficient at prices favorable enough to give us adequate Gross Profit to cover reasonable expenses and earn a Net Profit. Then again, Inventory and Accounts Receivable must turn over fast enough so that sufficient cash will be on hand to meet expenses and obligations. When a business loses ground there is something wrong with one or more of these five major factors.

First: Sales may be insufficient to carry even a reasonable overhead structure. While in some small territories it may not be possible to obtain sufficient volume to cover even a small overhead, these cases are very rare. In most instances the fault lies in lack of sales promotion, lack of constructive advertising and, most important, lack of outside selling effort. There is usually someone within an organization who can spend a portion of his time outside to stimulate sales. Sometimes new closely related lines should be added to bring volume up. On sales promotion and advertising, increased expenses is ill-advised in a business already losing money. However, these two items should be kept in mind in an endeavor to save enough out of existing overhead to finance these two items.

Second: The cost of sales may be too high. In other words, the gross profit percentage may be too low compared to other businesses of a like nature. When this occurs, sales invoices should be scrutinized as to selling prices to determine whether the proper mark-up is being obtained. Usually we find that the regular run-of-the-mill business produces a satisfactory gross profit, but that a substantial amount of large business is taken at a very narrow margin, failing to realize that taking these large sales at low prices produces a serious decline in the all-over gross profit picture. Unless sales are costed, narrow gross profit business should be carried in a separate sales account and a low percentage used to figure gross profit on that business so that when the Inventory is taken at the end of the year, we won't find that the gross profit dollars earned on sales are substantially less than anticipated. Too many people are inclined to predicate expenses on sales volume instead of on gross profit dollars.

Watch Expenses Closely

Third: Expenses may be too high. Most of the time this is the real reason for the downward trend.

Sales volume falls off with a consequent decline in gross profit dollars, but overhead is not reduced in proportion. This demands a thorough analysis of all expense items. Arrangements must be made to trim expenses sufficiently to bring them within gross profit dollars earned. After the necessary expense reductions have been made, then a budget should be prepared showing the anticipated sales, the gross profit dollar expectancy based on a three year average percentage of sales and what the expenses should be to properly safeguard operations. This budget should be built on a month to month basis cumulatively so that when the monthly operating figures are taken from the books, they may be placed beside the budgeted figures to determine whether the business is running over or short of the budget. Your companies have budgets in their own business. You realize the importance of budgetary control. It is just as important for your dealer to properly control his business. His problem is the same, the only difference lies in the size of the figures.

Fourth: Receivables may be out of line due to the poor handling of Credits and Collections. Most dealers were former salesmen for some one else. They are sales-minded and lack experience in the proper handling of Credits and Collections. We can teach them how to correct this condition. Let's show them how a new account should be properly investigated and what risks to guard against. Show them how to age their receivables and how important it is to collect their money. Point out to them how much of their receivables are past due. That usually jolts or shocks them into following Collections.

A Proper Check on Inventory

Fifth: Inventories may be out of line. Slow moving items and obsolescence must be guarded against to control Inventories. Perhaps an Inventory Control of some kind should be installed. There are numerous ways of controlling inventories. A perpetual inventory is inadvisable in most dealer setups, because the expense of keeping it is too high. In some cases a turnover control is probably the wisest. This starts with an inventory by items. Incoming items are added. The total, less what is in stock at any given time, shows how the particular items is turning over.

If items are too numerous, then the control should be kept on only the more expensive items. The simplest Inventory Control I have ever seen is to obtain a rubber date stamp with the month and year in code.

CHART 3

DEALER ACCOUNTS WRITTEN OFF 1941

	Number of Accounts	Total Volume Obtained	% Loss To Volume	Average Total Volume Obtained For Accounts
Total Dealer Accounts	109	\$ 994,295.	3.4	\$ 9,122.
\$10,000 Volume & Over	14	868,300.	2.0	63,450.
Remaining Accounts	95	\$ 105,995	15.1	\$ 1,116.

The merchandise is stamped when received. By always keeping the oldest of a certain item in front it is easy to determine how long the item was in stock.

Heavy receivables and inventory are usually the real reason for a slow payment performance. Worthless receivables and obsolete merchandise are hidden losses which are not reflected in the Income and Expense Statement. How many times in bankruptcy cases have we found Balance Sheets reflecting receivables and inventory in excess of all obligations yet small, if any, dividends were paid?

As I said before, dealers as a rule are salesmen and not accountants and not credit men. They devote most of their time and attention to sales. That's the figure that they watch. Altogether too often they fail to recognize the importance of proper price control, expense control, receivable and inventory control and they welcome advice and guidance on these points. True, in order to accomplish this purpose it is necessary for us to become salesmen and sell our way into a business to the extent that we will be allowed to make the necessary investigation and recommend, yes, even at times, insist upon necessary corrective measures. Also, it takes time and it costs money but isn't it far better to spend some money to assist existing deserving accounts, than it is to spend more continually trying to replace outlets? Constructive advice and guidance many times perpetuates good volume accounts, with a consequent saving of gross profit on the volume, not to mention the saving of a possible substantial bad debt loss. Constructive assistance and guidance to dealers builds goodwill that cannot possibly be obtained any other way and most certainly is one of the best ways to strengthen that foundation under sales volume. Constructive credit work of this nature is what leads companies to recognize the credit man's job as a productive one, rather than a necessary evil, as you are selling merchandise from another angle no less important than regular selling.

Analyze Bad Debt Losses

Let's get back to that foundation under our sales volume and border-line credit risks. The best way to learn is from our mistakes; therefore, let's report our bad debt losses in such a way that we can break them down to determine where our weakness is. To say that our account mortality and bad debt losses are too high means nothing to anyone. We may sell industrial accounts, dealers, painters, maintenance accounts, consumers. Do we know in which one of those classifications we lose most of our money? How can anyone reduce bad debt losses without sacrificing profitable sales volume, unless we know where to tighten up. Also, do we know what we obtained sales-wise from weak accounts approved in the past and on which substantial bad debt losses were realized? Then, again, it may be necessary to further break down each one of these categories to locate our weakness. For instance, some years ago several Credit Managers decided to pool their dealer losses and analyze them. Here is a chart showing what was found. (See chart #3.) One hundred nine dealer accounts were written off during 1941. The total credit loss was \$34,190.00.

The total sales volume obtained from these accounts since the accounts were opened amounted to \$994,295.00.

A total of \$444.9 million in cash dividends was reported in July, 13% above the \$394.5 million reported for the like month last year, according to the Commerce Department.

Dividends in the three months ended July 31, amounted to \$1,213 million. This was 16% above the \$1,050 million paid out during the like 1946 period.

The percent loss to volume was 3.4%. The average total volume per account was \$9,122.00. If the analysis had stopped there, they certainly could not have proved very much; however, they dug deeper. They found that out of the 109 accounts written off, 14 gave them a total volume of \$888,300.00 with a loss of \$18,209.00 or 2%. The average total volume per account was \$63,450.00. These accounts were good gambles for volume. However, 95 of the 109 accounts gave them only \$105,995.00 in volume with a loss of \$15,981.00 or a loss of 15.1% with an average total volume per account of only \$1,116.00. This analysis taught them to pay more attention to whether a border-line credit risk was operating at a profit and was at least strong enough to give them a reasonable volume for some time to come. Laxity in careful scrutiny of border-line risks can quickly produce excessive account mortality, which is harmful both from a sales and bad debt loss standpoint.

What Happens in a Recession?

Let's take another look at our Income and Expense Statement with that minus and plus sign. What happens when we do not maintain a reasonably solid foundation under our sales volume and then run into tough times? When the going gets rocky it is only natural that weak risks start folding up. Not only does our sales volume go out the window as these weak risks fold up, but on top of the loss in volume we pile up substantial bad debt losses.

In time of stress we expect to lose some of our volume but why should it be necessary for the decline to be more than normal? Naturally, as the sales of our customers fall off, our volume will fall off because their purchases from us are less. What many of us forget, however, is that while we take a normal loss in volume on the good accounts, we lose 100% of the volume on the accounts that fold up with the result that our loss of volume is accelerated in proportion to the weak risks we have on our books. All of us know what happens when volume drops rapidly. Profits disappear. Expenses must be severely reduced. A part of the organization which was so carefully built up and educated must be sacrificed.

The professional Credit Manager must fit into this picture. Selling ability and a thorough knowledge of accounting is essential. Let's equip ourselves with these prerequisites and take our rightful place in industry.

A RELIABLE MEASURE OF LIQUIDITY

Ratio of Debt Cycle to Trading Cycle Advocated

by IRVING EPTON

Credit Manager, Bernside Mills, New York

The most mentioned words in any discussion of the analysis of financial statements for credit purposes are . . . "The Current Ratio." A good many of the credit reports put out by the agencies include computation and analysis on the basis of the Current Ratio. One of the larger credit agencies calculates this ratio to two decimal places.

An automatic supplement to this frequent phrase leaps to the mind of any credit analyst. Say "Current Ratio" and "2 to 1" is immediately added as a necessary qualification of what is considered to be normal and desirable. I have heard it said, "As long as the current ratio is 2 to 1 or better, no further financial analysis is necessary for the average order."

There can be no disagreement with the fact that the Current Ratio, or the relationship that current assets bear to current liabilities, is a fundamental tool of credit analysis. It is a recognized and convenient method of expressing an important balance sheet relationship. For this reason alone it has value. It is unlikely that any man who analyzes financial statements for credit purposes does not make use of it.

No Proof of Liquidity

Yet, valuable as this tool may be, in my opinion it would be better to discard it entirely than to rely upon a ratio of 2 to 1 as proof of financial liquidity. A danger exists in accepting the ratio for more than merely a convenient way of comparing current assets to current liabilities. This danger overshadows the value, unless it is recognized. When the ratio is considered as an index of liquidity, and a 2 to 1 relationship as an automatic indication of a normal and desirable liquid condition, then there is a good chance of being misled in a credit appraisal.

I believe that the most vivid method of proving this point is through two comparative financial statements. With only a few additions, there is no reason why these examples could not be actual ones.

ABC CORP.

Cash	\$5,000
Accounts Receivable	
Inventory	20,000
Total Current Assets	\$25,000
Accounts Payable	25,000
Total Current Liabilities	\$25,000

Current Ratio—1 to 1

XYZ CORP.

Cash	\$5,000
Accounts Receivable	25,000
Inventory	20,000
Total Current Assets	\$50,000
Accounts Payable	25,000
Total Current Liabilities	\$25,000

Current Ratio—2 to 1

It is obvious from a quick inspection of the above statements that the XYZ CORP. has twice the value in current assets to meet the same amount of liabilities as the ABC CORP. On the basis of the Current Ratio, it would seem that the ABC CORP. should be labeled in red, "CREDITORS BEWARE" whereas the XYZ CORP. is sitting pretty.

Other things being equal, if reliance were to be placed upon a Current Ratio standard of 2 to 1, the order from ABC CORP. would be refused credit while that of the XYZ CORP. would be approved. From a practical business standpoint I do not believe that any firm can afford this type of analysis; both because of the good business that will be lost and the unrecognized risks which will be assumed.

Only a few steps further in the financial analysis might develop facts, such as those given below, which would reverse the picture.

The absence of accounts receivable in the ABC CORP. statement is explained by the fact that all sales are made on cash terms. A comparison of the inventory to the Cost of Goods Sold reveals an average turnover of twice a month. On the other hand, purchases are made on 60 day terms. Therefore, in the course of the 60 day credit period before bills become due, purchases could provide their value in cash four times. In addition, if the mark-up is adequate, and a glance at the Income Statement would verify this, sufficient money would be provided to meet all the other expenses too. Under these circumstances, the "below-normal" Current Ratio can then be thrown into the waste basket. The ABC CORP. is financially liquid since it will be able to meet its bills on time.

Apply Trading Cycle Test

Now let's look at the XYZ CORP. which has been pointed out approvingly by the divining rod of a

2 to 1 Current Ratio. In this case, further analysis may develop interesting information. Apparently this firm does not sell on cash terms. Which gives rise to the question . . . how good are the accounts receivable? A comparison to sales indicates that the accounts receivable average a collection period of a month and a half. Furthermore, the inventory takes another month and a half before it is converted into accounts receivable. This results in a Trading Cycle of three months to produce the cash to pay the accounts payable and other expenses of the business. Since purchases are made on thirty day terms and the gross profit percentage is shown by the income statement to be small, this should be a difficult, if not impossible, feat. Now we begin to wonder how the XYZ CORP. remains in business, despite a "normal and desirable ratio of 2 to 1."

It is true that the facts given have been assumed in order to make the contrast more vivid. But they are realistic facts which have been substantiated many times by the writer's experience. There can be no dispute about the possibility that these conditions can exist and not be revealed by the Current Ratio. Moreover, since these facts are the real criteria of the ability of a business to meet its obligations on time, reliance upon the Current Ratio may tend to hide a lack of liquidity.

Test on a Large Corporation

Just recently, the writer came across a credit report from an established agency which, from still another angle, illustrates the danger of complete reliance upon the current ratio. The financial strength of the subject of this report is so obvious that I have no doubt that any person with some knowledge of financial statements would entirely disregard the implication of the downward trend of the ratio. However, the same fallacy, which is inherent in the Current Ratio, might not be detected easily, if the liquidity were not so apparent.

Here are the figures as approximated from an actual agency report of June 1947:

	12/31/44	12/31/45	12/31/46
Current Assets	\$106,800	\$115,500	\$141,700
Current Liabilities	1,700	2,600	8,600
Current Ratio	62.50	44.42	16.47

The point is so obvious that it need not be belabored. I merely raise the question . . . can any credit man see any cause for alarm despite the decline in the Current Ratio of almost 75%?

However, there is one thing that the Current Ratio will indicate, and that is the comparative chance of recovery by the creditor in the event of the liquidation of the firm. The ABC CORP. would be unlikely to pay 100 cents on the dollar should the business discontinue, whereas the XYZ CORP. would probably pay in full. But trade credit, unlike investment credit, should be extended on a going concern basis. It would be an extremely restrictive, not to say pessimistic, credit policy that operated otherwise.

If the reader of this article is in agreement up to this point, he might ask, "Granted that the Current Ratio is not a reliable measure of liquidity . . . what is?"

I regret that I can offer no substitute gauge of financial liquidity equal in simplicity to the Current Ratio. Actually liquidity is affected by many diverse factors, for which reason it is doubtful if there can be any simple measure. Furthermore, the value of ratios or standards is questionable since they tend to assume a significance unto themselves which obscures the nature of the facts which they reflect. This was shown very well by the example taken from an actual report given above. In addition, these so-called financial facts can be varied considerably by different accounting techniques, which would naturally alter any ratios that might be computed. But that is another, although very interesting, subject.

However, if a ratio had to be selected, I would propose the ratio of the Debt Cycle to the Trading Cycle. In order to prove liquidity, this ratio should be better than 1 to 1 and be combined with a demonstrated ability to show a profit. This may appear to be a complicated measure at first reading. Indeed, it is no comfort to those who desire a substitute equal to the simplicity of the Current Ratio. Analysis will show that it is not as complicated as it seems, however. It is merely a technical re-statement of the common sense definition of liquidity as being the ability to meet debts as they mature.

Translate to Time Equivalents

The essence of this ratio was shown in the comparative analysis of the ABC and XYZ corporations given previously. The fundamental idea is to translate the current assets and current liabilities into time equivalents and then compare them.

The Debt Cycle is equivalent to the period of time in which obligations for merchandise have to be met. It is, at the least, equal to the terms of purchase extended by suppliers. If some form of outside financing on longer terms is utilized, the debt cycle is consequently increased. Thus it can be seen that a firm which can purchase only on short terms may lengthen its Debt Cycle, and therefore better its liquidity position, by borrowing from a financial institution on longer terms; providing the gross profit percentage is sufficient to meet the added cost of this financing.

Another method of determining the Debt Cycle, which can be used when the purchase terms vary greatly, would be to divide the total purchases for the period by the average debt incurred for merchandise. (The debt can be averaged to some extent by adding together the amounts shown on the opening and closing statements for the period and dividing by two.) In this manner the turnover of trade debt can be expressed in proportion to the total period covered by the statement. This can be translated easily into approximate months or days.

The Trading Cycle is the period of time it takes for cash to buy merchandise, be changed into accounts receivable and then become cash again. This can be computed by adding together the merchandise turn-

over and the accounts receivable turnover. The calculation of these two turnovers is a recognized analysis procedure which needs no detailed explanation in this article. Dividing the Cost of Goods Sold figure, given on the Income Statement, by the average inventory will give the approximate merchandise turnover. Similarly, dividing the volume of Sales by the average amount of accounts receivable will give the approximate turnover of this latter item. The results should be expressed in months or days, whichever unit is similar to that used for the Debt Cycle.

A resulting ratio of 1 to 1 between the Debt Cycle and the Trading Cycle would indicate that merchandise could be turned into cash in the same period during which obligations for merchandise will become due. A ratio of better than 1 to 1 is desirable, since it would give the firm time to breathe because merchandise could be turned into cash before debts mature. A better ratio also would permit the seasonal bunching of purchases and sales common to most industries.

The ratio of the Debt Cycle to the Trading Cycle measures liquidity only as far as the ability to pay purchase debts. For a complete picture of financial liquidity it is necessary to consider the ability of the business to provide for all other debts, such as administrative and selling expenses, labor and overhead. In addition, a satisfactory profit should be obtained.

Does Customer Make a Profit?

The funds to meet these other obligations are normally provided by the mark-up occurring in the change from merchandise into accounts receivable. Therefore the best measure for this aspect of liquidity is very simply given by the Income Statement. The ability to operate profitably, which is demonstrated by the analyses of Income Statements for several periods, is a very important gauge of liquidity too. It proves the ability to pay the accrued and other liabilities not included in the calculation of the Debt Cycle.

The above description of a technique for analyzing financial liquidity for credit purposes is necessarily brief. Many details and qualifications required for theoretical and profound argument have been omitted, although such support does exist. For purposes of the practical credit man, it need only be said that the analysis, if properly understood and carried through, will provide a reliable gauge of liquidity under all conditions.

The practical credit man will also realize that in those cases where the cash position is consistently equal to or in excess of current debt, there is little need for any further calculation of liquidity.

It will be noticed that the type of analysis which I advocate requires Profit and Loss information. No apology is made for this, since in my opinion, a balance sheet cannot tell its story without the data contained in the Income Statement. This fact is being more and more recognized in credit circles.

Many Factors to Watch

Some readers may argue that a good knowledge of his industry will enable the credit man to judge liquidity without detailed analysis. This is true only to a certain extent. Within the same industry (even for the same firm at different periods) changing methods of financing or operation will bring about varying degrees of liquidity despite similar Current Ratios. One firm may sell only for cash; another may grant instalment credit. One firm might factor its accounts receivable or finance its inventory while another might avoid all forms of outside financial assistance. Contrasting policies may exist of buying only against order or buying for inventory; selling only to large key distributors or selling to consumers through a mail order catalog. All these factors can cause liquidity variation in the same industry. The Current Ratio may or may not reveal the different liquidities caused by these policies, but the comparison of the Debt Cycle to the Trade Cycle surely will.

CREDIT VALUE OF A LIFE

by W. R. C. ROWAN

Estate Engineer, Reliance Life Insurance Co., Pittsburgh

COften a successful business is built around a single man, whose resources, energy, technical knowledge, experience, or ability to plan and execute make him the most valuable asset of the organization and absolutely necessary to its continued successful operation. A good example of this, I think, is Glenn L. Martin, who started experimenting with a kite and today heads his vast airplane business with a back-log of orders amounting to over 200 million dollars. Andrew Carnegie once said that the group of able men in his organization were an asset far more valuable and indispensable to him than all his mills, railroads and material equipment.

The magazine "Business Week" reports a recent

study by the Federal Reserve System of loans made by member banks in the Philadelphia district. There were about 40,000 business loans, aggregating some 600 million dollars. 70% of these loans were made to business concerns with assets of less than \$50,000. And more than half of them (about 57%) were granted on the name of the borrower alone, with no specific collateral. In other words, this huge credit was extended largely on the basis of those two purely human elements of Character and Capacity.

Another recent survey by a leading business publication, "System," reveals that over a period of 30 years only about 5½% of the businesses established survive. In other words, on this basis, 30 years from

today less than 6 out of every 100 of such businesses will continue in existence. In the extension of credit you are vitally interested in the causes of these business failures. We get some light on this from the analyses made by a reliable authority, The U. S. Department of Commerce. It is declared that 75% of these business casualties are due not to lack of capital or material resources, but to a break-down of the human elements—the incompetence, or inexperience, or extravagance, or death of one or more of the human beings responsible for the policies and practices of the business.

What Are Chances of Death?

So it is evident that one of the most important factors that should be investigated and considered when extending credit is the contingency of death. It is equally evident that when it is disclosed that this contingency has been guarded against by every reasonable and possible means, such an individual or business is entitled to broader and more generous treatment in the extension of credit than if this vital factor had been disregarded. Fire insurance is taken for granted, and is almost invariably carried in adequate volume. And yet a fire loss may never occur, while the death of the owner, executive, or key-man is inevitable. Statistics show that the probability that a business man will die before his business suffers a fire loss is represented by the ratio of 14 to 1 if he is age 45; or 17 to 1 if he is age 50; or 23 to 1 if he is age 55. And remember that, as I said, his eventual death is certain to occur, while he may never have a fire.

The primary purpose of life insurance is the protection of the family. Every family is dependent for subsistence upon a continued income. Sometimes this income is derived from invested funds that have been inherited or accumulated. But in most cases it depends upon the current earnings of the husband or father. His life has a definite value, and it is this value which justifies the existence of life insurance. We are indebted to Dr. S. S. Hueber for bringing out so clearly the life values of our national economy in relation to property values. In one of his books, for example, he points out that if it is true that the destruction by fire of a \$100,000 building represents a loss of \$5,000 annual income to the owners, it is equally true that the death of a husband and father whose earnings are \$5,000 per year, represent a capital loss of \$100,000 to his family. It is not generally easy for a man earning a \$5,000 salary to own \$100,000 insurance on his life, but nevertheless Dr. Huebner's simile does forcibly bring to mind the capital value of that life, and the wisdom of insuring it to the fullest extent possible.

Let us now consider some of the numerous business uses to which life insurance lends itself. It is generally conceded that the entire structure of a business organization is founded upon its ability to obtain credit. That ability is curtailed or strengthened, as the case may be, by the lack or the sufficiency of the safeguards that exist or are set up in the business structure against the hazards or contingencies that may arise. We have seen that one of the most important of these hazards is the absolutely unpredictable contingency of death. That contingency can be guarded against by means of business life insurance, which is the only way to guar-

antee the production of a certain amount of cash upon the happening of an uncertain event.

Employee Benefits—Pensions, etc.

Just in passing, I should like to mention an interesting development of the use of life insurance company contracts in the field of employer-employee relationship. I refer to the wide-spread adoption of Group insurance for the benefit of employees' families, and Retirement Pension Plans provided by means of combined life insurance and annuity contracts. Our present Federal laws encourage the establishment of these employee benefits by giving substantial tax exemptions and privileges to both employers and employees, provided they are set up in the manner required by the regulations. Over 11,000 of such Pension Plans have already been processed and qualified by the Internal Revenue Bureau. Many of them include indemnity not only for the employee's death, but also for injuries and loss of time due to illness or accidents. A number of insurance companies (including the Company I represent) issue Accident and Health contracts of this kind. The great need for this form of insurance is indicated by a recent study made by the U. S. Bureau of Labor, which reports that 47 million man-days of labor were lost in 1946 due to work injuries. Two millions of workers were disabled on the job; 16,500 of them died; and 94,900 of them were permanently disabled. The report points out that this lost time is equivalent to the employment of 790,000 workers for a full year. Since the good treatment of its employees, and the high morale which this engenders, are important factors in the profitable operation of any industrial organization, it follows that the very existence of these various employee benefit plans must strengthen its chances for success and consequently its credit.

Let's break down the broad term "Business" into the several forms under which it is operated today, and consider how the credit of each may be affected by the existence or non-existence of Business Life Insurance!

The Sole Proprietor

The sole proprietorship is really just a person. He may have a large business and dozens or hundreds of employees; but all of the assets and obligations of that business are simply a part of his personal estate. When the sole proprietor dies, so does the business die. Those who extend credit to him in that business are therefore vitally interested in the assurance that his obligations will be fully and promptly liquidated in event of his death. Life Insurance is the only institution that can guarantee this. An early and notable example of this form of Business Life Insurance was that of Sir Walter Scott, who carried "credit insurance" in the amount of 22,000 pounds. When he died, in 1832, the payment of this sum helped materially in paying his debts to his publishers, and left his Estate solvent. One of the country's greatest merchants, John Wanamaker, once said:

"20 years ago I had a capital of about a half million dollars. I then realized that a business man with a half million dollars of capital and one million and one-half of insurance on his life would have better credit in business than one with a half mil-

lion capital and no insurance—and so I took the insurance. I now find that, trading on the credit I created, I made more profit than if the money which went into insurance had gone directly into my business."

In extending credit and granting loans, Banks are giving more and more consideration to the Life Insurance owned by the borrower. There was a time, 30 or 40 years ago, when even the fire insurance carried was not gone into very thoroughly. Now, however, it is realized that even though a business may be perfectly sound and well managed, with ample tangible assets, the security of the enterprise may be rudely shaken, and even its very continuance threatened, by the unpredictable death of the man who is responsible for its success, and without whose guiding genius it would probably fail. And so we find, in the questionnaires used by the Banks that a considerable space is devoted to information concerning life insurance. Where such protection is not carried, the Banks frequently suggest it. The wisdom of this policy is demonstrated every day. One well-known example, which received wide publicity, was the case of Mr. Benjamin Harris of Stamford, Conn., who was the moving spirit around whom was built the very successful firm of B. T. Harris Corporation. A bond issue was decided upon, and William C. Simmons, Inc., agreed to sell the bonds. These Bankers pointed out, however, that, in event of Mr. Harris's unexpected death, it would be very hard to liquidate the property, and they insisted that, in addition to the Corporation's other assets, the Bond be further protected by obtaining One Million Dollars of Insurance on his life, which was done. Mr. Harris was drowned only six months afterwards. The Million Dollars of cash insurance proceeds enabled the calling of the Bonds, and left the Company in good liquid condition, with no outstanding obligations other than its capital stock. Who can doubt the tremendous credit value of this Business Life Insurance?

Partnerships

"Dad," said the young lady, "now that your partner has died, couldn't my boy friend take his place?" "That's a good idea," said her father, "see if you can arrange it with the undertaker."

The question of who shall take his place is only one of the many serious problems raised by the death of a partner. Attorney Paul E. Hutchinson has explained the legal characteristics of a partnership. One of these is that upon the death of a member of the firm the partnership is automatically dissolved. The sole duty of the surviving partner (or partners) is to wind up the business and make a full settlement with the Estate of the deceased for his share of the net assets. Further operation of the normal business of the partnership is completely stymied. The purchase of merchandise, or the taking on of new contracts, or the renewal or extension of credit obligations, can be undertaken solely on the basis of the surviving partner's personal responsibility and liability, since the partnership firm, as a separate business entity, no longer exists. By its very nature, therefore, a partnership organization is constantly exposed to sudden and serious credit impair-

New construction stayed a little above its normal summer rate during the hot month of August, the Department of Commerce reported.

New estimates show that contractors last month added \$1,153,000,000 to the value of projects under way. This is over 5 per cent more than the \$1,212,000,000 worth of new construction put in place in July.

ment by the hazard of death. In a corporation, credit may be momentarily suspended upon the death of an executive, or stockholder, but it can be more readily stabilized because the corporation, as such, continues to exist, and the only outward change in its structure is the transfer of some of its shares to new owners.

In thousands of partnership firms these problems have been successfully solved, to the complete satisfaction of the principals and their creditors, by entering into a Buy-and-Sell Agreement providing that upon the death of any partner the survivor (or survivors) shall immediately purchase his interest at a stipulated price. So that the necessary cash funds will be promptly available, each partner carries business insurance, in the desired amount, on the life of the other. When a death occurs, the whole transaction can be quickly completed; the heirs of the deceased are fully compensated in cash; the surviving partner becomes the sole owner; and the business proceeds without serious interruption or financial embarrassment.

It is evident, therefore, that in extending substantial credit to a partnership firm, careful inquiry should be made regarding the provisions that have been (or should be) established to safeguard the interests of all concerned in event of the death of one of the partners. It is also obvious that Partnership Retirement Life Insurance can be a most important factor in such plans.

The Close Corporation

What has been said about Partnerships will apply almost equally in the case of Corporations where the stock is closely held. The death of a major stockholder may cause his shares to fall into the hands of persons whose interests are inimical to those of his former associates. The resulting discord and clash of policies may disrupt the organization and seriously jeopardize the continued success of the business. It has been said that a minority interest in a close corporation is probably the worst piece of paper in the world.

Here again, the solution of the problem lies in an appropriate Buy-and-Sell Agreement by which the stockholders can be assured that, upon the death of one of them, the survivors can acquire his shares and his heirs will be promptly and fully compensated in cash. Sometimes this is done by a provision in the By-Laws or endorsements on the stock certificates to the effect that the Corporation itself will purchase a deceased

stockholder's shares and retire them. The Corporation, however, could do this only in event it had a surplus sufficient for that purpose. The safest and best way is for the stockholders (or such of them as wish to participate in the plan) to enter into an agreement between themselves and a selected Trustee; and deposit with the Trustee their stock certificates, together with insurance policies on their respective lives in the desired amounts. In these days of extremely high Inheritance and Estate taxes the stockholders in such a close corporation are naturally concerned about the valuation which the State and Federal taxing authorities will place upon their shares at death. The item of "Good Will" is always considered, and has often been the prime cause for much doubt and litigation. These doubts can be eliminated by the use of a binding Buy-and-Sell Agreement, since it has been held, in numerous rulings and decisions, that the reasonable price fixed in such an agreement will be accepted as a proper value for Estate tax purposes. As in the case of a Partnership, the credit position of a Close Corporation should be greatly strengthened by the existence of such safeguards, particularly when the ultimate success of the plan is guaranteed by the inclusion of adequate insurance on the lives of the stockholders.

Key-Man Insurance

Earlier in my remarks I touched on the great importance of the human element in every organization, and cited authorities for the statement that 75% of business failures are due to a break-down of this factor. Also, that the hazard of disaster due to the death of one or more individuals who are vital to the success of a business, is many times as great as the hazard of losing replacable building or equipment by fire. As these facts become better understood, we find that business is more and more coming to the adoption of another form of Business Life Insurance, namely insurance on the lives of Key-Men.

In simple terms, Key-Man Business Insurance is nothing more than insurance on the life of a key executive or employee, for the benefit of the business with which he is associated. It may be the president or other officers, very often several of them. Perhaps it is the sales manager who is a genius in organizing and marketing the firm's products or services. Possibly it is a technical expert or inventor who has the essential "Know how" and who would carry valuable secrets to his grave. The late Lawrence C. Woods told of this conversation with the president of a large Pittsburgh steel mill right after the death of one of their vice presidents. This man said, "Woods, our corporation has spent at least \$2,000,000 on experiments in that man's department, and under his personal direction and control. Not more than half of that value has he been able to pass on to his associates. The other million dollars dies with him." It is true that no man is indispensable, but his successor can be more easily obtained, and the credit shock due to his death can be greatly softened, if the company treasury will immediately receive a substantial sum of cash in the form of the proceeds of Business Insurance on his life. This fact was forcefully demonstrated some years ago in an address by Mr. Julius H. Barnes, then President of the U. S. Chamber of Commerce. Mr.

Barnes' address was appropriately entitled "Brains versus Bricks." A list of the possible "key-men" in business organizations, whose employers have a substantial insurable interest in the continuance of their lives, would be very long. We only hear about the big ones. How, for example, the life of Walter P. Chrysler was insured for a million dollars in favor of the Chrysler Corporation. How the firm of Joseph P. Day, Inc., received over \$1,630,000 non-taxable cash proceeds of Business Insurance upon the death of that noted auctioneer in 1944. Often such deaths occur within a surprisingly short time after the insured has been accepted as a perfectly good risk and the policy issued. I have already mentioned the million dollars paid at the drowning of Mr. Benjamin Harris only 6 months after this insurance was purchased. Another similar instance was the case of Mr. Irwin Kirkwood, Editor of the "Kansas City Star," which was paid \$625,000 proceeds of Business Life Insurance taken out only 10 months before Mr. Kirkwood's death.

Cash Reserves Valuable

Aside from its primary purpose as indemnity for the loss by death of valuable key personnel, such Business Life Insurance has other tangible values that should not be overlooked. Every life insurance policy (except some forms of Term insurance) contains a table showing its guaranteed cash reserve value year by year. These cash values show a constant appreciation (never any depreciation), and after a policy has been carried for a certain period, they may actually exceed the total premium deposited. At any time these cash reserve values are promptly available to the owner, and they constitute a cash asset that may prove extremely convenient and useful in an emergency. All of us have vivid recollection of what this meant during the recent depression period when banks were closed and life insurance companies were the only place we could turn for financial relief. Speaking of "relief," it is interesting to note that during the dark period of 1933 to 1938 the life insurance companies of this country paid out over 15½ billions of dollars, which is about 3 billions more than the Federal Government spent for relief in those same years. Mr. Martin L. Davey, head of the Davey Tree Experts Company, and a former Governor of Ohio, when asked why he carried more than a million dollars of insurance on his life, told of an occasion when his firm faced a financial crisis and was forced to borrow a large sum of money. After repeated failures to obtain the required loan through the usual channels, he said he found, to his surprise, that he could borrow the full sum needed on the Business Life Insurance which the firm then carried.

Key-Man Insurance may be in the form of Endowment policies, and in that case there may be some taxable profit when they mature. However, such proceeds may be used to pay a retirement income, or pension, to the insured employee, and the firm may deduct such pension payments in its Income tax returns.

Likewise, the proceeds of Key-Man Insurance received upon the death of the insured executive or other employee may be used to continue his salary (or part of it) to his widow, and such payments may be deducted by the firm.

TRAINING CREDIT PERSONNEL

Timely Suggestions for Developing Aides

by C. M. MATHEWSON

Division Credit Manager, Cities Service Oil Co., Boston

C We are now entering a new era of credit. Whereas the credit man may not always be recognized for his true value to his business, employers will no longer tolerate the losses from the bungling of so-called credit men who in the past have learned to administer credit by the trial and error method.

Most of us here today became creditmen by chance—not by choice. I believe young men should be encouraged to make credit management a career and be given a course of training that will enable them to acquire in a few short years the technique that some of us have spent most of our business lifetime trying to master; and so enable them to avoid most of the mistakes that we have made.

In order to induce young men to enter upon such a career, it must be made attractive to him from a financial angle. Because of the high wages paid for union labor, I am apprehensive about the number of ambitious young men who will be seeking white collar jobs. After the present crop of students who are taking training under the G. I. Bill of Rights have completed their courses, I wonder how many young men will take the time and effort to go to college to prepare for business when a union card will pay them more money than most white collar jobs will pay.

Dizzy Trout, pitching star of the Detroit Tigers, was reported to have told this story about himself at the recent dinner of the Sports Writers held in Boston. He said he didn't have much education. As a matter of fact, he had a hard time getting out of grade school. In one examination he was asked to name the capital of Indiana. Naturally, he named his own town of Grand View. Obviously, the correct answer was Indianapolis so the teacher subtracted twenty-four from one hundred and got seventy-six. Seventy-six was passing and so he was graduated.

Must Raise Standards

Of course, all young men can't be major league pitching aces, but there is some similarity to conditions as they exist or may exist in the future. Somebody will have to be prepared to handle the country's credit.

A little over two years ago I protested to Mr. Heimann, Executive Manager, National Association of Credit Men, because the National Association of Credit Men did nothing to promote the interests of the

individual. It is, therefore, gratifying to know that through the medium of the National Institute of Credit the National Association of Credit Men has now put forward an educational program that in my opinion will provide a satisfactory academic background for a career in credit management. This program is under the supervision of Carl D. Smith, Director of Education and formerly President of the Babson Institute.

In addition, it is the aim of Mr. Smith and of the Association to raise the standard of credit men through education and training so that eventually one will be permitted to practice only after being licensed by a state board in the same manner as are public accountants.

I should like to read to you a paragraph from the "Institute's" catalog for 1946-1947, and I quote:

"Credit and financial management as a career carries with it responsibilities as important in the field of business as are the professional obligations resting upon the lawyers, the doctor, the accountant, and the teacher. All of these professional workers serve the public within the prescribed professional limits of their respective vocations. The credit manager's work covers every important area of commercial and industrial activity. What he does and the decisions he makes affect and determine the economic, social and moral welfare of people in all walks and levels of our national life. The competent credit executive is regarded as the qualified guardian of our nation's financial resources. His calling is so useful to society and of such a high order in the preservation of financial stability and integrity that the public is becoming increasingly conscious of the professional status of his service. To meet these responsibilities implies personal and character qualifications of a high order and educational preparation on a recognized professional level."

Four Phases of Training

The training of a credit man obviously must fall into four phases:

1. Selection of the subject.
2. Academic training.
3. Practice and procedure.
4. Supervision.

I am not going to take time discussing qualifications. The need of possessing personality and tact; imagina-

tion and resourcefulness; and the ability and patience to analyze and later synthesize facts so that a clear-headed decision can be made, are well-known to all.

Most of us have been placed in the unfortunate position of having had assigned to our department without our consent someone who has not performed satisfactorily in one or more previous assignments. Because of his period of service, the management wants to make a place for him. So the Credit Department is his last resort. More often than not the subject has made a failure of selling. He comes to us with the erroneous viewpoint that the sole function of the Credit Department is to collect money, and that the only way to collect money is to be tough. We all know that to collect by the use of force is one of the easiest things in the world. I have known of instances where individuals have collected accounts in what looked like a sensational degree through the use of high pressure methods. And, because of those apparent successes, they have set themselves up as authorities in credit.

I have never known an instance where a salesman who, having been placed in a position of being responsible for credit losses—either as District Manager or in a similar capacity—did not become arbitrary and inflexible. As a salesman he was no doubt constantly a protester of Credit Department practices.

Not an "Easy Snap"

Horace Greeley said that the darkest hour in any man's life is when he sits down to plan how to get money without earning it. No person should enter upon a career in credit and not expect to work. He must work hard in preparing himself as well as while performing duties for which he may be solely responsible.

He is bound to have "troubles." We have all had "troubles." But, if he makes his "troubles" his "experiences" he will develop at a more rapid pace than had he had smooth sailing all the way.

In academic training, one need go no further than the program scheduled by the National Institute of Credit. That should meet minimum requirements. Many of the subjects on the program are of college grade and will be accepted as meeting degree requirements in the event the individual should care to continue with his studies, which he should be encouraged to do. I urge you to give it your consideration.

I believe that the more college trained men who can be induced to enter the credit field, the greater will be the recognition given to the work. Book learning and practical experience are, of course, essential, but college training supplemented by the extra-curriculum activities develop very important elements in the student—poise and balance, which are difficult to attain otherwise. So much for the three R's.

The matter of practice and procedure provides great latitude of discretion, and I want to make a few observations.

He Should "Know the Ropes"

I believe that the trainee should spend some time in other departments so as to get a practical understanding of the problems that arise elsewhere in the business. He should know what goes on in the Order Depart-

ment, the Warehouse, and the Traffic Department or Dispatchers Office. And, of course, he should spend some time in the Sales Department.

He should be taught the science of selling. I don't mean that he should peddle, but he should be taught to sell these qualities that are his working tools. Tact, resourcefulness, imagination, personality, courage, etc., are worthless unless he is taught how to use them. He must be taught to earn the respect and cooperation of his fellow workers.

Mr. L. T. White, one of the executives of my Company, recently addressed our dealer organization on the value of friendship. I believe that the same fundamentals apply in credit technique as they do in salesmanship. It is not necessary to be hostile in order to be firm. Being affable will bring best results.

Mr. White rates a man's earning capacity according to the number of friends he has. He values each friend at \$50.00 in annual income. For example: a man with 100 friends will earn \$5,000 a year; 200 friends, \$10,000, and so on.

Use the Five Senses

He said that everybody wants to have friends. That is why they join associations and clubs. Some people make friends easily. Others must learn how. Mr. White gave a formula for making friends by suggesting an appeal to the five senses:

Sight—This appeal has the longest range. So, we should look well—make a good appearance. Smile—don't be a "sour puss." Maintain an even disposition.

Sound—Greet people with a cheery "Hello!"—and mean it. Say "Good Morning," even if it isn't. Say something pleasant—even if you have to lie about it.

Smell—I'll let "Lifebuoy" ads fill in here. Remember, even your best friends won't tell you.

Touch—A hand shake is always a friendly gesture. Give a good firm grip. Character may be explained by a hand shake.

Taste—Say, "Thank you!" That is always good taste.

I have found a type of credit clinic to be of great help in instruction of matters of practice and procedure. A weekly session of one hour in which fundamentals are discussed serves in the nature of a laboratory. Whereas some of the discussions are elementary, I have also found they are valuable in refreshing the minds of older men as well.

There should, of course, be an office manual which the trainee can refer to so as to check his acts on office procedure.

I mentioned "force" a minute or so ago; the trainee should be taught that force should be used only as a last resort. The use of force is usually evidence of fear resulting from incompetence. The use of force may also result in an attitude of belligerency. Anger may be the next step. Any one who is aroused to the point of anger is at a decided disadvantage. Any experienced lawyer will tell you that if he can get his adversary angry he has his case practically won. The trainee must learn self-control. A quick temper may become a progressive disease and develop into bad temper.

The trainee must not confuse courage with force. But he must have the courage of his convictions. A

lack of force is not evidence of lack of courage—but lack of firmness is.

Hounds on the trail of a fox are taught not to follow so fast as to drive him underground. The fox will fight and fight hard if cornered. The credit man who uses too much force finds his customer or debtor will turn and fight back or go underground. In that case, all of the processes that the law provides may be necessary to smoke him out.

The matter of supervision is equal in importance to training. Too often an individual is given a job to do, told how to do it, and then left to his own resources. No further attempt is made to see that he is performing his job correctly or in the most effective manner. If the immediate effects of his efforts are reasonably good, general satisfaction is considered. Sooner or later a failure takes place and he is held entirely responsible. He may be dismissed from his job. All because of lack of proper supervision in the elementary stages.

Since business began returning to civilian production of goods there has been greater interest in the training of supervisors than ever before. Many concerns are conducting schools for supervisors.

One point that I should like to add here. That is—give credit where credit is due. Many supervisors or department heads neglect or refuse to give credit to their subordinates for acts of distinction performed by them. Instead they take unto themselves all of the glory. They make the Capital "I" their crest. To deny a man credit for acts of distinction may kill his enthusiasm for his job or any job. A man who has lost his enthusiasm is a virtual bankrupt. Personally, I get much greater satisfaction out of the knowledge that the individual who has earned commendation did so because of being trained under my supervision.

It is the duty of a supervisor both during and after the course of training to cause the trainee or employee to recognize and use his latent abilities for doing more and better work. Even known talents are often allowed to go to waste. Unless one recognizes and has confidence established in his own ability, his advancement may be hampered and failure may be inevitable.

The matter of training former service men under the G. I. Bill of Rights is something for you to consider. There is much to be gained in selecting trainees from that group. You get young men with well developed minds. As a general rule the trainee does not benefit very much financially at this time because the maximum benefit he can receive is \$175.00 per month for single men and \$200.00 for married men. However, the educational features can be many times more valuable. He is entitled to training for one year plus one month of additional training for each month of service.

A number of years ago, I was in conversation with a man who had made considerable success in business. Starting from a humble beginning, he built up an estate well up in six figures. He knew nothing about the "C's" of credit, but had substantial debts outstanding at all times. I said to him, "Just what do you consider to be the chief basis for credit?" His answer was, "Confidence." He said, "I wouldn't do business with a man unless I had confidence in him. If I accept a man's credit for thirty days, I do so with confidence

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that he will make payment by the date agreed upon. That is credit. If he should fail to pay as agreed and he loses my confidence and I give him more merchandise, or if I loan a man \$10.00 and wonder if I'll ever get repaid, that is no longer credit but is charity."

I'm willing to go along with my friends with "Confidence" as the basis for credit. If a creditman is trained to gather all the facts about an applicant—his character, capacity and capital; becomes familiar with local conditions and customs; and makes an affirmative decision based upon a careful weighing of those facts, then he will grant credit with confidence. If he then has the courage of his convictions, he should have no worry as to the outcome.

Bill Cunningham, famous columnist of the Boston Herald, told this story. Bill played football at Dartmouth on the same team with Gus Sonnenberg, former World's Heavyweight Wrestling Champion. Subsidizing players at that time was not uncommon. Scholastic requirements were not too high, but one of their key players was declared ineligible just before a big game. A committee was appointed to call on the dean to plead for his reinstatement. The dean told them that if they would agree to tutor the ineligible player, he would give another examination. So the committee stayed up all night helping plug for the examination, and while the examination was going on, they impatiently waited for results. Eventually the dean sent for them. He said, "I told you fellows that if he answered half of the questions correctly he could play. Well, I asked him two questions. His answer to the first question was obviously wrong. His answer to the second was, 'I don't know.' I believed him—he really didn't know, and it was obviously a correct answer. So, I passed him."

A weakness among young men—and some older ones as well—is that they try to arrive at a conclusion with only half of the facts. If one has only half the facts, he cannot hope to judge safely.

So, let me urge you to train your credit men in the words of a well-known radio commercial, "Don't be half safe."

HOW LABOR COSTS AFFECT CREDIT

Boosting of Wage Scales Important to Economy

by J. E. LeROSSIGNOL

University of Nebraska, Lincoln 8, Nebraska

GAmong the most notable and far-reaching consequences of the late world war has been the increase in money wages of almost all employees in this country, of whom factory workers and some others have also had their buying-power or real wages considerably increased while public servants and many other white-collar workers have had their real wages reduced, inasmuch as their money incomes have not kept pace with the cost of living.

The figures presented herewith, obtained from the reports of the Department of Labor, show the gains in money wages and real wages of several classes of employees from August, 1939, to the peak of March, 1945, what they gained or lost from March to November of that year, and what they were able to regain or hold after the strikes of 1945 and 1946.

From a cursory examination of these cold figures one might infer that the factory workers had no cause to complain inasmuch as millions of workers had had their buying-power reduced and other millions of soldiers had been serving their country at low pay at home and abroad. But it was painful to have wages cut in a time of rising prices, so it is no wonder that they listened eagerly to their leaders who said that even wartime wages were below proper standards of health and decency, that the cost of living had gone up far more than the official figures indicated, that prosperity could not continue without a continual increase in mass buying-power, and that the corporations, out of their exorbitant profits, could easily absorb a blanket increase in wage-rates of more than 30 per cent, and that, without cutting dividends or raising prices.

To make a long story short, the wave of strikes which began in the autumn of 1945 and continued well into the following year was so serious that President Truman appointed a number of fact-finding boards to examine the conflicting claims and recommend reasonable settlements. As might have been expected, all of the decisions were compromises and the increase in wage-rates recommended in the early decisions—about 18 per cent—became a pattern for the later cases as though labor conditions and the employers' ability to pay were much the same in all the industries and concerns affected.

The fact-finding board appointed on November 27, 1945, to investigate the dispute between twenty-two oil companies and the Oil Workers International Union (CIO) recommended on January 1, 1946, an increase

in basic wage-rates of 18 per cent, at which all the companies presently settled. In the General Motors case the board recommended on January 10 an increase in basic rates of 19.5 cents per hour or 17.5 per cent. The Company refused to accept the recommendation, but on March 26 the parties settled at 18.5 cents or about 17 per cent. Somewhat later the dispute between the United States Steel Corporation and the United Steelworkers of America (CIO) was settled at 18.5 cents or about 17.5 per cent, and the other steel companies presently followed suit.

The packing-house cases also, involving the five leading companies and three strong unions, were settled on the basis of 18.5 cents (about 17.5 per cent), with the recommendation that 5 cents of the additional cost be absorbed by the companies and that they receive price relief from the OPA for the remaining 11 cents. The 16 to 18.5 per cent pattern was later applied to the soft coal miners and the railway workers, and a number of other cases were similarly and rather summarily disposed of, after which the first post-war wave of strikes gradually subsided.

The report of the Fact-Finding Board in the General Motors case is typical of all the reports in that it lays chief stress on two features of the dispute: the demand of the workers to be compensated for the reduction in their take-home pay and the ability of the corporation to absorb the additional cost without much, if any, increase in prices. The Board also considered the desirability of maintaining general purchasing-power and raising the national income.

One of the Woes of Being "Big"

As to the paying ability of General Motors the Board appeared to accept the conclusion of the Department of Commerce as given in the press release of October 25, 1945, that the automobile industry at large could pay 15 per cent higher wages in 1946 and 25 per cent in 1947 without increasing prices. The Board therefore inferred that General Motors could do still better inasmuch as "in earning capacity and in prospects for profitable and continuous maximum production it is outstanding among American corporations," and graciously decided to keep it in that desirable position of leadership by recommending a general increase in wage-rates of 19.5 cents an hour without any price relief.

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This decision was largely based on a forecast of earnings in the year 1946 backed by certain assumptions or guesses as to probable productivity, costs, and prices, and the Board concluded with this fervent note of optimism:

"Our calculations show that, under these assumptions, the company can earn in the first 12 months following the resumption of production profits in excess of those of the base period used by the Office of Price Administration for pricing purposes. . . . We recognize of course that General Motors will gradually achieve higher and higher output, only the time factor being in question. Certainly as General Motors new plant comes into operation it may exceed in 1947 its 1941 product by as much as 50 per cent. This desirable development will greatly increase the company's profits and will give it the pleasant task of determining how such profits shall be distributed—to stockholders, to reserves, and to consumers generally in the form of higher quality and lower priced products."

The Board, of course, knew that the decision would speedily affect wage rates in all the other automobile companies, but guessed that they could stand the gaff inasmuch as in the year 1941 they produced less in proportion to capacity than General Motors and therefore would have a larger increase in production under the peak demand expected in 1946. So they dismissed the question thus: "Under these circumstances we do not think that there would be any reason for considering a downward adjustment of the proposed General Motors wage increase on the ground of price consequences to the industry." The Board thus put itself in the peculiar position of saying, in effect, that General Motors could do better by way of wage increase than the industry at large and that the industry could do as much, if not more.

The Dealers "Take the Rap"

In compliance with the "New Wage Price Policy" announced by President Truman on March 8, 1946, the OPA granted a measure of relief to a number of employers, including the steel companies, the meat packers, the railways, and the automobile industry.

As to General Motors the following figures supplied by Mr. Ellsworth DuTeau, of Lincoln, Nebraska, may be taken as typical of the relief granted to that corporation. The price of the Chevrolet Master Deluxe Four-door Sedan 1946 Model (later known as Stylemaster), which was \$876, f.o.b. Flint, prior to the strike of November, 1945, was raised to \$894 on March 13, 1946. After this the OPA granted a second increase to \$936, effective May 22, and on August 12 the ceiling was raised to \$1005, involving an increase in dealers' discount but no increase to the Company. After the OPA was temporarily recessed on June 30 the Company raised its price to \$1123, and as the ceilings on automobiles were not restored after the recess the price of the 1947 model Stylemaster Four-door (formerly Master Deluxe) has remained at \$1123, f.o.b. Flint, until May 27, 1947.

These and other decisions were received by certain labor leaders with a show of great indignation and they

were not slow to tell their people what they thought of them and why. The Economic Outlook, organ of the CIO, in its issue of September, 1946, claimed that total net profits of manufacturing companies were so high during the first half of 1946 that they could have raised wages by 30 per cent or more without applying to the OPA for price relief. But the OPA, it said, had favored the corporations and "prices were raised on the slightest pretext."

A Comparison of Figures

These contentions were vigorously supported by A National Wage Policy for 1947, a pamphlet prepared for the CIO by Robert R. Nathan and Oscar Gass and published in December, 1946. In that report much is made of the fact that from January, 1945, to October, 1946, wages increased, if at all, much less than the cost of living; but no attention is called to the more than offsetting fact that from August, 1939, to October, 1946, average weekly earnings in manufacturing industries increased by 86 per cent, while the cost of living increased by only 46 per cent.

Oddly enough, when the report deals with the "unreasonable" profits of 1946 the base is changed and the comparison is now between the profits of that year and those of 1936 to 1939 which, for "all corporations" were years of abnormally low profits. True, the profits of those corporations increased from an average of about \$4,000,000,000 in the years 1936 to 1939 to about \$12,000,000,000 in 1946, or about 200 per cent; but if we were to compare the profits of 1946 or any other year with the deficits of the thirties we should get the absurd result that the percentage of increase was greater than infinity. Which shows, of course, that comparison of such quantities is meaningless unless related to some standard base such as total sales, net worth, or national income.

For example, the figures cited in the Nathan report show that in the year 1946 the profits of manufacturing corporations were about 4.8 per cent of total sales, as compared with an average of 4.3 per cent in the years 1936 to 1939 and 6.3 per cent in 1929. In the year 1946 those same profits were about 8.9 per cent of net worth, as compared with an average of 6.9 per cent in the years 1936 to 1939 and 8.1 per cent in 1929. True, the net profits, after taxes, of "all corporations" in the year 1946 amounted to the huge sum of \$12,000,000,000, but when compared with the national income of that year they do not look so large. According to the figures of the Department of Commerce the national income in the year 1929 was about \$81,000,000,000 and the net profits of all corporations were \$7,387,000,000, or 9.1 per cent; whereas in the year 1946 the national income was \$165,000,000,000 and the net profits \$12,000,000,000, or only 7.2 per cent. To be sure, nobody knows just what are reasonable ratios between profits, on the one hand, and sales, net worth, and national income, on the other; but when such comparisons are made the profits of 1946 do not seem to be out of line.

For all of that, the Nathan report arrived at the conclusion that "total corporate business can support a 25 per cent increase in wages on the same basis that



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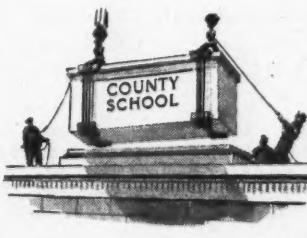
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manufacturing alone can support a 21 per cent increase," and presented its figures to the CIO as justifying a lot of new demands for increase in wage-rates backed by threat of a second wave of strikes.

In criticism of this report Labor's Monthly Survey, published by the American Federation of Labor, had this to say in the issue of January, 1947: "Clearly this figuring on paper has nothing whatever to do with the realities of industrial operation or with collective bargaining. Unions negotiate with thousands of companies, each faced with different conditions affecting their ability to pay higher wages. Some can pay more—some less. There could be no pooling of profits, such as the report presupposes, except under a totalitarian state. Even if it were possible to force a 25% wage increase on American industry generally, the necessary 68% cut in profits would put thousands of companies out of business and throw millions of workers out of jobs; it would reduce profits to the low level of 1936 to 1939 when 8½ million were unemployed and industry was not earning enough for the normal new plant and equipment which expand production and raise living standards. It is true that many companies show enough profit in 1946 to allow for adequate plant expansion and also provide substantial wage increases for workers. But it is not true that industry can afford a general wage increase in 1947."

In claiming that employers could even now absorb large increases in wages, labor leaders make much of the fact that wages and salaries are often but a small fraction of total costs—say, 30 per cent—and infer that an increase in payrolls of as much as 20 per cent would involve an increase in price of the product of not more than 6 per cent. This would be true, of course, if all the other costs remained unchanged, as they have not in recent years. When, therefore, in a given time, all costs are rising, an increase of 20 per cent all along the line may well require an increase of 20 per cent or more in the price of the final product.

High Costs of Buildings

Such an upward movement of all costs in the building industry is well shown in the Executive Digest of October, 1945, from which the following figures have been taken:

BUILDING COSTS OF A STANDARD SIX ROOM FRAME RESIDENCE BUILT IN SAINT LOUIS

	January 1940	October 1945	Increase
Materials	\$3129	\$4353	39 %
Direct labor	1702	3177	86 %
Overhead and profits of sub-contractors	352	515	46 %
General contractor's profit	516	805	56 %
Missouri sales tax, old age employment tax, etc.	327	553	69 %
Total construction cost	\$6026	\$9404	56 %

From these figures it is clear that labor costs, direct and indirect, have been the chief factor in the cost of building and that, as the Executive Digest puts it: "Over a period of time the only way that labor rates can be increased without increasing the price of the product is for the efficiency of operation to increase."

But there is another reason why many employers cannot absorb any considerable increase in wage-rates without price relief, and that is the fact that they have but a small margin of profit after allowing for all costs. The following figures obtained from the reports of three of our leading manufacturing corporations and the Interstate Commerce Commission, which are by no means exceptional cases, show the relation of payrolls to net earnings and the impossibility of granting any considerable increase in wages without price relief or serious loss.

PAYROLLS AND NET INCOME OF CERTAIN CORPORATIONS, 1946

Corporation	Wages and Salaries	Net Income After Taxes	Sum of Payrolls and Net Income	Share of Labor	Share of Owners
Swift and Company, 1946	\$ 164,013,099	\$16,394,739	\$ 180,407,838	90%	10%
United States Steel Corporation, 1946	704,500,000	88,600,000	793,100,000	88.8%	11.2%
General Motors, 1946	807,215,992	87,526,311	894,742,303	90%	10%
United States Railways Class I, 1946	4,170,163,790	288,534,467	4,458,698,257	93%	7%

The automobile industry, by and large, was in the doldrums during the first nine months of 1946 when, as stated in the December issue of Automobile Facts, "An industry wide loss of \$5,500,000 was recorded by passenger car makers." True, they hope for better times in 1947, provided that production is near capacity, that sales are satisfactory, that labor does not demand too much, that no crisis comes with collapse of prices, that war is not threatened, and that no other calamity comes to mar the spirit of their dream.

What the Railroads Face

The railways, certainly, were in no position to absorb any increase in payrolls during the year 1946, but when the labor disputes were settled on May 25 they had to make concessions at a cost of about \$800,000,000, after which the Interstate Commerce Commission granted relief in the form of higher rates, but too little and too late. No wonder that Robert R. Young, Chairman of the Allegheny Corporation said at a recent press conference: "The railroads face the worst showing in history in 1947. The reason for this is that wages and other costs have been allowed to increase roughly 50% while rate increases have been held to a pittance."

To be sure, the unions say that labor gains must and do take precedence of federal taxes, and employers have too often been ready to accede to that; but such collusion is a sort of conspiracy against the other taxpaying, even as an agreement for the raising of prices with governmental consent is a sort of conspiracy of labor, capital, and government against the ultimate consumers.

Of course, those ultimate consumers could stand any given increase in their cost of living—say, 55 per cent—if only their money incomes were to increase in the same ratio; but as the money incomes of millions of the gainfully employed have increased since the war began by much less than 55 per cent, while the incomes of other and fewer millions have increased much more, a sort of class struggle has broken out between union and non-union workers and their respective allies which threatens the peace and prosperity of our country. And



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as, in addition to incessant demands for higher and higher wages, certain unions have not hesitated to hold-up key industries in these critical times, is it any wonder that public opinion, aroused and indignant, has demanded more or less drastic legislation, both state and federal, to clip the wings of organized labor?

Many labor leaders seem to assume that the receivers of profits, interest, and rent—the so-called "exploiting" classes—have such enormous incomes that they could easily absorb an all-round increase in wages of 25 per cent or more, and that, without danger to the economic order; but an examination of the way the national income of 1946 was distributed does not show that the share of labor could be increased very much by diminishing the shares of the other participants in the joint production. The latest figures given by the Department of Commerce are these:

NATIONAL INCOME BY DISTRIBUTIVE SHARES—1946
(Billions of dollars)

Total national income	\$165.0
Total compensation of employees	109.8
Net income of proprietors	30.2
Agricultural	14.9
Non-Agricultural	15.3
Interest and net rents	13.0
Net corporate profits	12.0

From this exhibit it looks as though labor could not gain much at the expense of the corporations without seriously diminishing the incentive to business enterprise. Possibly, the relatively small proprietors—farmers, shop-keepers and the rest—could stand a deeper cut, but when it is remembered that a large part of their share is labor income the suggested transfer looks like robbing Peter to pay Paul. Finally, interest and net rents might be absorbed by labor, but as we have not yet arrived at the "painless" confiscation of capital and land envisioned by Lord Keynes as the "euthanasia of the rentiers," slight help can come from that direction. And when we remember that the wealthy classes pay a large part of their income in taxes, the prospect of drawing on their bottomless purse does not look promising. All of which points to the conclusion that labor and all the other participants in production and distribution could do far better for themselves by working together for a larger national income rather than fighting for a larger share of a smaller income. Better half of a big loaf than the whole of a little one.

(Continued from page 6)

football team. The football team that wins the honors is the team whose members have supported one another and cooperated with each other to the greatest possible extent. It is team play that has brought them to the top of the pile. Imagine, if you will, what would happen to the team whose members decided not to have a coach; who decided that they could get along perfectly well by going out on the field and playing a game in accordance with their own personal convictions. Only havoc and upheaval would be theirs as a result of their decision to go their separate ways on the football field. If team play and cooperation makes a winner out of a football team then why can't the concerns within a given industry weather the storm by using and applying the same rules of team play and cooperation.

Sales should be made on a basis of quality, price, service and delivery. Once an industry or an organization within a certain industry starts making sales on the basis of terms—then watch out for the fire-works. Terms competition is deadly! There is no winner in that competition—everyone is a loser.

What then can the industry do as its part in our program to make the trade as a whole credit conscious? As I see it there must be a complete and overall feeling of cooperation on the part of all the businesses concerned. Certainly there must be a free exchange of credit information among the various concerns. For the mutual benefit of everyone concerned we must cooperate to the very fullest possible extent with the other establishments in our field.

The credit man cannot possibly perform his duties efficiently unless there is a strong sense of cooperation within his particular industry. Be it a football team or a golfer, a painter or a doctor, a farmer or a merchant man, a writer or a team of husband and wife—the success that they meet with within their respective ventures is proportionate only to the amount of cooperation and understanding that they have not only for their own individual ventures but also for their group as a whole.

Thus far I have touched upon the Credit Department, Salesmen and Industry as representing three of the four walls that must go to make up and uphold a strong program for the Merchandising of Credits. The fourth wall, the wall that must complete the structure and make it a worthy one is one that all of us here are quite familiar with, and that is the Credit Association itself. The awareness for the need of a strong credit policy apparently isn't a thing of recent origin because as far back as 2000 years ago the great Roman orator Cicero said, "Nothing so cements and holds together all the parts of a society as faith or credit, which can never be kept up unless men are under some force or necessity of honestly paying what they owe to one another."

It seems to me then that our Credit Association is the very thing that we need to complete the fourth wall of our credit structure. I like to think of this fine organization of ours, The National Association of Credit Men, as being a pool for the dissemination of the wealth of knowledge and skill that is represented in its membership of over 27,000 Credit men and women. Perhaps one of the most important things that the Association can offer its membership is the opportunity for the further development of the knowledge and skill of those in the credit fraternity. It ties in perfectly with the policy we have before us—the policy for Merchandising and otherwise making known to everyone concerned our credit terms and policies. It is one of the aids that we can utilize in the establishment of a sound system for handling credit policies and problems. Once again I must stress the need for cooperation—this time with the Association as a whole, because the extent to which we go in cooperating with the Association will in large measure determine the amount of cooperation and help that we as members can derive from this great organization.

More Side Lights on Legal Phases of Credit Problems

by CARL B. EVERBERG

1. *Question:* Occasionally I receive an order with a rubber stamp legend (and sometimes it is printed) to the effect that the customer is a common law trust and that the trustees are liable only to the extent of the trust property. What is the significance of this?

ANSWER: One of the best statements about a common law trust (sometimes called business trust, also Massachusetts trust) can be found in a decision by the Illinois Supreme Court, *Schuman-Heink v. Folsom*, 328 Ill. 321. This court said: "Of late years it [business trust] it has been and is utilized in the field of commerce and trade as a substitute for the corporate or partnership organization."

There is the very marrow of the bones of the answer—it is a substitute for corporate, partnership or any other kind of business organization. And, by the writer's experience, it is good, if not better than the original thing. It is not a well known form of organization and most lawyers, harboring, by tradition, some kind of contempt for it, will advise clients against using it as a vehicle of business administration. The Legislatures and courts in some states make law against it. For example, the Ohio Constitution declares it illegal notwithstanding there are many business trusts functioning in that state and further notwithstanding its existence is predicated (or should be) on a contractual basis (which status is protected by the U. S. Constitution). The courts in some states accomplish a similar result by consistently holding trusts to be nothing more than partnerships. This is a curious result too, because by inference the partnership form of organization is something to be abhorred, but these same courts make the partnership appear very desirable to creditors because of the unlimited liability of the partners individually for partnership debts.

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which recognize the validity of the common law trust, if properly drawn, it accomplishes the personal immunity from liability on the part of the investors much like that of stockholders in a corporation, and at the same time it achieves the sort of elastic and informal manner of making important decisions which partners enjoy in the administration of a partnership.

The business trust, according to *Michigan Trust Co. v. Herpolsheimer*, 256 Mich. 589, derives its powers and privileges "from the voluntary association of individuals. The trust receives no corporate franchise. Its members comply with no general corporation law. They receive no act of sovereign approval. They derive whatever power and authority they have from the voluntary action of the individuals forming the trust. A common-law trust is not a corporation." Briefly, the investors convey to certain trustees (and the trustees may be selected from amongst the investors) funds and property upon the agreement of the trustees to manage it and pay to the investors the profits of the operations. The trustees therefore are analogous to the directors of a corporation. They may indeed, elect or appoint a president, treasurer, secretary and any other officers according to their pleasure (according to the provisions of the trust agreement which outlines the duties, etc. of the trustees).

When the aspects of a legal trust are preserved (beneficiaries having no control nor voice in the management of the operations) the investors who are called beneficiaries, *cestuis que trust*, shareholders are not subject to any personal liability. The trustees, however, according to the law of trusts, undertake to be liable on their contracts although they are permitted to be indemnified out of the trust estate. The trustee lacks one advantage of the director of a corporation therefore because a director is but an agent for the corporation while the trustee is principal. If the trust funds are insufficient to indemnify the trustees they will find themselves in a predicament where they must dig down into their own pockets to pay the debts of the trust. This is the reason the trustees seek to protect themselves in the orders given on behalf of the

trust (such as the rubber stamp legend mentioned in the question at the head of this answer.)

The form of the immunity provisions varies frequently. In some cases the forms contain words beneath the names of the trustees such as: "not individually but as trustees to bind the trust estate." The purpose is to put the other party on notice that he is not to be personally liable and that such other party must look solely to the trust estate. The effect therefore is as though the trust were a corporation and only the assets of the corporation itself without regard to the directors' assets, are subject to the debts of the corporation.

It was urged in the case first cited above that such an immunity provision is against public policy. However the court said: "it is not against public policy to make an agreement with a creditor that he shall, in case of default in payment, look exclusively to a particular fund for his reimbursement." Further this court added: "if there be one thing more than any other which public policy requires, it is that men of full age and competent understanding shall have the utmost liberty of contract, and that their contracts, when entered into fairly and voluntarily, shall be held sacred and shall be enforced by the courts."

2. *Question:* We have heard that a corporation does not have the authority to guarantee the payment of the debts of another. How about a partnership guaranteeing the debt of another firm?

ANSWER: It is true that a corporation generally does not have the implied power to guarantee the debts of another. It should be noted that there are a few isolated exceptions, such as a case where the power is expressly stated in a charter, or where a corporation guarantees the debts of a subsidiary corporation and the business of the subsidiary is in furtherance of the parent corporation.

When it comes to a partnership attempting to become a guarantor for another there is a somewhat similar rule. It is stated in the case of *Persons v. Oldfield*, 101 Miss. 110, as viz: "The authority of one

partner to bind his co-partner is placed on the ground of agency, and hence one can bind the other only within the scope of the agency. A partnership is organized to conduct the business for the benefit of its members, and it is foreign to its business to become surety (unless this is the business in which the firm is engaged)."

There is however a distinction in this matter of guarantees as between a corporation and a partnership. In the case of a corporation it is impossible to give validity to a guarantee no matter how unanimous the act is as respects the directors. But in the case of a partnership, if *all* the partners consent to the signing of the guarantee the partnership will be bound. If less than all the partners sign, it is invalid; and this is on the theory that a guarantee is not within the scope of partnership business and therefore no partner can bind another partner on non-partnership business except with the consent of such partner. *Jamestown Banking Co. v. Conneaut Lake Lock & Dredge Co.* 339 Pa. 26. The law, however, is satisfied to hold a partnership liable on contracts, whether they are in the scope of the business of a partnership or not, if all the partners agree to be bound.

It may also be added that even though the partnership may not be bound on a guarantee where less than all the partners consent or sign, the individuals who undertake the guarantee may be liable, not as partners but in their individual capacity. Individuals may at all times bind themselves to a contract of guarantee.

Partnerships Cannot Maintain Savings Acct., Federal Reserve Rules

Los Angeles: Fred Schellentraeger, Catalina, Inc., and Chairman of the Legislative Committee of LACMA, submitted the following interesting and informative item, issued by the Bank of America:

"A partnership cannot maintain a savings account as such is specifically prohibited by regulation 'Q' of the Board of Governors of the Federal Reserve Bank as revised in 1937. A partnership also is unable to own Series E Bonds. Such personal assets would be subject to personal liabilities in the event of financial difficulties."

New York Judge Limits Interest on U.S. Tax Claims

New York: If a decision made by Judge John Bright in the U. S. District Court for the Southern District of New York, late in August, is upheld by the Supreme Court, creditors in bankruptcy cases in which Federal tax claims are involved, will receive larger dividends in the future.

Judge Bright's decision is to the effect that interest on tax claims is to cease on the date of the bankruptcy filing, rather than that on the day of tax payment as heretofore. In some long drawn out bankruptcy litigations, the amount of interest on tax claims has frequently absorbed a considerable amount of the assets, thus depriving general creditors of a considerable amount of money for general distribution.

Judge Bright in his decision presented the following theory: "I have come to the conclusion that interest on claims of the Collector of Internal Revenue should be allowed only to the date of the filing of the petition." He also pointed out some precedents for such opinion, but added, "precedent is not always to be a guiding star, a court is not to be precluded by it against the responsible exercise of the judicial process."

It has been the general rule in bankruptcy and equity receivership cases that interest on the debtor's obligations cease to accrue at the beginning of the proceedings. Judge Bright followed this general rule in making his decision.

It is understood that the Department of Internal Revenue will appeal the decision to the United States Supreme Court.

N.A.C.M. Booklet

Tells of "50 years of Business Progress"

"Fifty Years of Business Progress" is the title of a new NACM booklet just issued by the Membership Promotion Department under the direction of E. B. Moran, of the Association's Chicago office. This booklet, while designed particularly for use in membership promotion work, has already been hailed by active members as an excellent reminder of the many accomplishments of the National Association of Credit Men.

Under the supervision of Mr. Moran, these new booklets will be distributed to about ten thousand prospects during September. It is the "first gun" to be fired in the extensive membership promotion program to be carried on for the balance of the fiscal year.

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READJUSTING CREDIT FILES

Postwar Experiences Show Need for Changes

by C. J. WAGNER

General Counsel, Minneapolis Association of Credit Men

How many of you have met your customer personally, for the first time at a creditors' meeting? We all know that during the recent war years, many of us have become lax in the handling of everyday customer accounts. It was too easy to sell just the discounters. Now, through various reasons, some of those discounters have suddenly found themselves in the bankruptcy court, either under reorganization or liquidation. Many of us got into the habit of selling customers purely on credit ratings. In this coming recession period, we will have to know much more than that on our investigation of customers' accounts.

Our first step to that end is—KNOW YOUR CUSTOMER. Get out in the field, meet your customer, discuss his production methods with him, examine his production controls, ask him about his price structure, inquire as to his labor relations, examine his insurance structure. All of these are vital factors in a successful business in this day and age. If your customer is in the distribution field, examine his inventory controls, find out whether his inventories are unbalanced, check his markets.

We cannot possibly take the current financial statement of any company at face value today. I want to know how my customers' current selling prices compare with those of 1940 and 1941. I want to know how current direct factory labor costs compare, too, with those of 1940 and 1941. I would like to see how my customers' labor costs relate to current labor standards today. I would like to check my customers' inventory as of today against that of five years ago. I would like to see how far ahead my customer has ordered supplies and materials at

current prices. I would like to know something about my customers' tax situation.

While we are on the tax situation, let me cite a large Chapter XI reorganization case in which we are engaged at the present time: This company did a yearly gross of 6 million dollars during the war years. VJ Day came along and the company was caught without a definite post-war plan. This was a manufacturing corporation. They hit upon four or five items to manufacture, and actually commenced the manufacture of two or three of them and then abandoned them. Proper steps were not taken to reduce payrolls and as a consequence, in the early part of January, 1947, where the company had over a million dollars in cash, on VJ Day, instead of having that million dollars in cash, it owed the U. S. Government taxes in excess of a million dollars. The general creditors of this company amounted to only 200 Thousand Dollars. No credit report or no Credit Interchange report would show the status of this tax claim. The Credit Interchange report however, was a warning to the creditors involved, as within six months after VJ Day, the company changed from a discounter, to thirty days slow. Then it gradually went to sixty and ninety days slow. Then some of them got in the 120 day column. Some of the credit men who watched and were informed of the situation, got out a year ago, but many of the local houses were still in at the time the reorganization petition was filed. Now that company is in just this situation today: That unless the U. S. Government makes some compromise with them on the tax and renegotiation due Uncle Sam, it will be impossible to promulgate any successful plan of re-organization. If this company is adjudicated

in bankruptcy, the U. S. Government will very probably take every cent on its priority tax claim after expenses of administration are paid.

We also have another large reorganization in the office where there are assets of 1,700,000 dollars and liabilities of approximately one-million dollars. In this particular case, the company was doing war contracting. It discounted its bills during war time and the same interchange history was true as of the other one I mentioned. This company went into an entirely different field on its post-war plan. It used up its entire capital in trying to manufacture and promote the sale of this entirely new product in a highly competitive market. Then too, labor troubles started to develop to the point where today the company is operating under Chapter XI of the Bankruptcy Act and the Unions still insist on a 30 cents an hour increase. If the Unions strike and will not let matters remain in status quo, the company must be liquidated. If it is liquidated, I doubt very much whether general creditors will get more than 10 cents on the dollar.

I think the main reason that most of us find ourselves as substantial creditors in some of these re-organizations and bankruptcies, is because we, as credit men, have taken on so much detail in our various offices that we have not had the time and the opportunity to survey our customers and know all about them.

Any one of us can hire capable assistants to do the detail work. You, Ladies and Gentlemen, are credit executives. Make it a point to get out of your office at least three or four days of every month, meet your customers, get to know them. If possible, meet them in their homes. You can soon judge whether a man has a happy married life by visiting

him in his home. Many, many failures are caused by domestic difficulties. I can take the majority of small failures and point as the reason, one of three things: (1) Domestic difficulty, (2) Excessive use of intoxicating liquor, and (3) Gambling. I know from practical experience in tracing these case histories, that that is actually what occurs in the great majority of the smaller failures. In the larger failures, it is more or less a matter of incompetency on the part of the executives: Their inability to understand trends in the rising market, causing over-buying and excessive inventories or unbalanced inventories.

The second point I would like to leave with you is GET ALL THE INFORMATION YOU CAN ABOUT YOUR CUSTOMER from (1) Your Credit Interchange Bureau and Group Meetings, (2) Your reporting agency, and (3) Your customer's bank, or whatever other media you use. Again it goes back to the same old story, you cannot know too much about your customer.

Some time ago we received for collection a substantial volume of claims against a company doing business in Minneapolis under a trade name. This company was formed by two ex-G.I.'s as a partnership. Immediately after VJ-Day, these two boys were able to get some steel fishing rods for sale and as a result, they made about \$7,000 in three weeks time. They immediately became executives. They put on a crew of twelve salesmen and took on several jobbing lines to handle. Four months later, they woke up finding they owed general creditors in excess of \$50,000, and accounts receivable were all discounted with the Finance Company and the only remaining assets of the company were a desk and a chair. Do you think that the credit men involved in this particular failure had all the information about their customers?

You will find that if you follow these two principles, and follow them religiously, that you will not only be doing an excellent job as credit men for your firm, but you will be furthering the firm's general business, as, in fact, you will be your company's best salesman. Your company will know, at all times,

how much they can sell this particular customer without any great risk of loss.

Now, I also know that many of you are selling on a national basis that it is physically impossible for you to go out and visit with each and every one of even your large customers. Do as much of it as you can, because every visit that you have with one of your larger customers will pay you and your business untold dividends. Where you are doing business on a national basis, you will have to rely on your local representatives and salesmen for much of the information. If you will demand of your salesmen and local representatives the necessary data, they will get it for you. As you know, the National Association of Credit Men have Bureaus in every section of the country. In addition to collection and Credit Interchange, these Bureaus are in a position to make individual credit investigations for you on important accounts. If your Sales Department cannot give you the full information, write the local Bureau, and I am sure they can get it for you at a nominal cost.

Book Reviews

Practical Rules for Graphic Presentation of Business Statistics by L. Edwin Smart, Ph.D., Professor of Statistics at The Ohio State University, and Sam Arnold, Ph.D., Economist and Statistician for the Bureau of Business Research, The Ohio State University. Published by the Bureau of Business Research, College of Commerce and Administration, The Ohio State University. Price \$2.00.

Financial officers are often faced with the problem of presenting some of their information in the form of graphs, or charts. This book just published at The Ohio State University seems to provide a wealth of information and should serve an excellent purpose in the library of the credit or financial officer.

The book contains 83 pages and index, but it presents some 46 charts with full instructions as to how they should be constructed.



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38th Semi-Annual Survey Shows Drop for First Time in 6 Years

by PHILIP J. GRAY

Manager Foreign Credit Interchange Bureau, N. A. C. M.

IN For the first time in six years Latin-American markets registered wide-spread declines in both credit and collection ratings in the 38th Semi-Annual Survey of Commercial Credit and Collection Conditions in Latin-American markets covering the first-half of 1947. Twenty markets declined in credit rating while collection-wise, 22 markets lost ground in this present Survey.

In the collection classification Costa Rica was rated "very slow" with Chile and Columbia recorded as "slow," the first time in thirteen consecutive semi-annual surveys that any market has been placed in those categories. Paraguay, Bolivia, Ecuador, Uruguay, Peru, Brazil and Argentina were rated as only "fairly prompt." Best collection performance was recorded in Cuba, Panama and Puerto Rico which lead in the top collection classification of "prompt," closely followed by the Dominican Republic, British, Netherlands and French Possessions, Mexico, Haiti and Venezuela.

Four Countries Down in "Credit"

Viewed solely from the credit aspect, Costa Rica, Chile, Bolivia and Colombia declined in rating in this survey to the "fair" classification, while Paraguay and Ecuador were rated as only "fairly good." Here again Cuba, Panama and Puerto Rico shared top honors in the highest credit classification of "good" with Venezuela, Dominican Republic, Netherlands and British Possessions, Haiti, Argentina, Brazil and Mexico following.

Credit-wise only three countries, Cuba, Panama and Puerto Rico showed improvement and only one country, Nicaragua, improved its collection rating in this survey.

No changes of importance were recorded in the comparison of terms granted during the first-half of 1947 with those extended during the year 1946. As might be expected, greatest change was registered in Costa Rica where 4% of the members reporting stated they had reduced terms while 1% cited more liberal terms, but even here with adverse collection experience, 95% of the members reported credit terms unchanged. In Argentina, Brazil, Chile and Colombia, 3% reported "less liberal" terms, 1% "more liberal" terms and 96% reported "no changes" in terms. No changes at all were reported in the top-rated countries of Cuba, Panama and Puerto Rico, while only a minor 1% change was shown in British Possessions, Dominican Republic, Guatemala and Mexico, and except in Guatemala, this change was toward "more liberal" terms. In all other markets changes held between 1% and 2% with "more liberal" terms fairly well offsetting terms reductions.

The 218 American manufacturers and exporters contributing to this survey are located in all parts of the United States. They represent a veritable cross-section of American products, the majority of them reporting on all the markets included in this survey. In compiling this survey, no consideration is given to the question of Governmental debts or service obligations, and the classification of "credit conditions" refers to the situation within the various Latin-American markets from the commercial point of view only, as judged by American manufacturers and exporters. Comments made by those replying to the survey under the general heading "collection conditions" may be considered as indicating the current trend based on the definite experience of American manufacturers and exporters having commercial collection items in the markets surveyed. The "terms" feature of the survey simply reports whether members' terms during the first half of 1947 to Latin American buyers were "unchanged" or "more liberal" or "less liberal" than those granted during 1946, and the replies have been listed country by country in a percentage figure.

Ratings of each Latin-American market on credits and collections and for changes in terms follow:

Survey of Terms Granted During First Half of 1947 As Compared with 1946 Terms

(In percentages of replies received)

	No Change %	More Liberal %	Less Liberal %
Argentina	96	1	3
Bolivia	98	2	1
Brazil	96	1	3
British Possessions	99	1	1
Chile	96	1	3
Colombia	96	1	3
Costa Rica	95	1	4
Cuba	100	1	1
Dominican Republic	99	1	1
Ecuador	97	1	2
French Possessions	98	1	1
Guatemala	99	1	1
Haiti	98	1	1
Honduras	98	1	1
Mexico	99	1	1
Netherlands Possessions	98	1	1
Nicaragua	97	2	1
Panama	100	1	1
Paraguay	97	1	2
Peru	96	2	2
Puerto Rico	100	1	1
El Salvador	97	2	1
Uruguay	98	1	1
Venezuela	98	2	1

Credit Conditions

Insofar as the present Semi-Annual Survey is concerned, which covers Credit Conditions prevailing in the first six months of 1947, the members of the Foreign Credit Interchange Bureau once again rated 18 Latin-American markets as "Good," 2 as "Fairly Good" and 4 as only "Fair." A comparison of Credit and Collection Index figures by country is attached hereto, and we list below Latin-American markets in the order of their standing in the Credit Survey:

GOOD: Cuba, Panama, Puerto Rico, Venezuela, Dominican Republic, Netherlands Possessions, British Possessions, Haiti, Argentina, Brazil, Mexico, French Possessions, Guatemala, El Salvador, Peru, Uruguay, Honduras, and Nicaragua.

FAIRLY GOOD: Paraguay, Ecuador. **FAIR:** Colombia, Bolivia, Chile, Costa Rica.

POOR: None.

Collections

This is the first of eleven surveys in which all markets failed to reach the top Collection Classifications of "Prompt" and "Fairly Prompt." It is also the first of thirteen consecutive Surveys in which any market was listed as "Slow" or "Very Slow." Fourteen markets are listed as "Prompt," 7 as "Fairly Prompt," with 2 "Slow" and one, Costa Rica, recorded as "Very Slow." The current survey of Collections in percentages of replies received is attached hereto, in a country-by-country listing. Markets are listed below in the order of their rating in the Collection classifications:

PROMPT: Cuba, Panama, Puerto Rico, British Possessions, Dominican Republic, Netherlands Possessions, French Possessions, Mexico, Haiti, Venezuela, Nicaragua, El Salvador, Guatemala and Honduras.

FAIRLY PROMPT: Argentina, Brazil, Peru, Uruguay, Ecuador, Bolivia and Paraguay.

SLOW: Colombia, Chile.

VERY SLOW: Costa Rica.

Current Survey of Collections (July 1947) (In percentages of replies received)

	Prompt	Fairly Prompt	Slow	Very Slow
Argentina	58	12	23	7
Bolivia	50	6	24	20
Brazil	62	7	17	14
British Possessions	86	9	4	1
Chile	38	6	36	20
Colombia	40	7	32	21
Costa Rica	29	10	40	21
Cuba	93	5	1	1
Dominican Republic	89	3	7	1
Ecuador	57	6	19	18
French Possessions	82	6	8	4
Guatemala	69	10	21	10
Haiti	79	6	11	4
Honduras	72	7	14	7
Mexico	83	5	7	5
Netherlands Possessions	85	5	7	3
Nicaragua	72	9	15	4
Panama	92	6	1	1
Paraguay	49	6	28	17
Peru	58	10	20	12
Puerto Rico	91	7	1	1
El Salvador	71	9	14	6
Uruguay	59	6	18	17
Venezuela	78	7	12	3

Comparison of Credit and Collection Index Figures (Based on Surveys on Credit and Collection Conditions in Latin America)

	Credit Conditions			Collections		
	July 1947	Jan. 1947	July 1946	July 1947	Jan. 1947	July 1946
Argentina	270	294	285	70	100	100
Bolivia	215	263	245	56	67	97
Brazil	270	272	285	69	100	100
British Possessions	276	286	288	95	100	100
Chile	212	270	280	44	69	100
Colombia	226	273	288	47	96	94
Costa Rica	205	260	269	39	68	88
Cuba	300	296	294	98	100	97
Dominican Republic	290	295	292	92	100	100
Ecuador	233	261	267	63	68	91
French Possessions	265	268	266	88	95	100
Guatemala	265	285	282	79	96	100
Haiti	273	280	273	85	100	100
Honduras	252	285	286	79	100	100
Mexico	266	295	291	88	92	93
Netherlands Possessions	278	290	297	90	96	100
Nicaragua	251	254	257	81	67	94
Panama	300	281	300	98	97	100
Paraguay	235	275	271	55	86	88
Peru	258	260	283	68	68	100
Puerto Rico	300	293	282	98	100	100
El Salvador	261	283	275	80	95	94
Uruguay	255	284	286	65	100	100
Venezuela	291	291	294	85	100	100

CREDIT—GOOD: 250 and up. Lowest percentage 50% good, 50% fair.

FAIRLY GOOD: 225 to 250. Lowest percentage 25% good, 75% fair.

FAIR: 200 to 225. Lowest percentage 100% fair.

POOR: 175 to 200. Lowest percentage 75% fair, 25% poor.

VERY POOR: Below 175.

COLLECTIONS—PROMPT: Over 70% prompt or fairly prompt collections.

FAIRLY PROMPT: 50% to 70% prompt or fairly prompt collections.

SLOW: 40% to 50% prompt or fairly prompt collections.

VERY SLOW: Less than 40% prompt or fairly prompt collections.

Teamwork increases Safety in Credit Risks

NAME: [REDACTED] Co., Inc.

TRADE STYLE: [REDACTED]

STREET ADDRESS: [REDACTED] County

CITY: [REDACTED] STATE: Ind.

F9 REPORT ALL ACCOUNTS NEW WITH YOU
This is very important to you (See other side)

CREDIT INTERCHANGE BUREAUS
NATIONAL ASSOCIATION OF CREDIT MEN
FOR SERVICE ONLY

No. [REDACTED]



Then the Bureau "carries the ball." Knowing your interest in the account, it warns you of developments — favorable or unfavorable — that may affect your interests or policies.

The reports of the Bureau enable you to act intelligently on new orders—and keep you constantly informed of changing conditions. To quote a member: "The warnings received in reports on customers more than pay for the cost of service."

You, as quarterback, "call the signals" when you file your new customer's name with your Bureau, as shown by the card at the left.

Credit Interchange Bureaus
of the NATIONAL ASSOCIATION
of CREDIT MEN

Report on CO., INC., INDIANA COUNTY AUGUST 8, 1947

The accuracy of this Report is not guaranteed. Information is gathered in good faith from members and sent to you by this Bureau without liability for negligence in principles, collecting, communicating or failing to communicate the information as received.

BUSINESS CLASSIFICATION	HOW LONG BOLD	DATE OF LAST SALE	INTEREST PERCENT CREDIT	HOW OWNED	PAST DUE INCLUDES NOTES	TERMS OF SALE	PAST DUE RECORD		COMMENTS
							SHD. COUNTS	PAYING RECORD PAST DUE DAYS SLOW	
INDIANAPOLIS 5 721-209	10-45 9-45	7-47 6-47	753 189	496 45	318 45	2-10-30 60	x	15 30	Slower
Clo Clo Hdwe Knit Elec	1946 yrs	7-47 7-47	1490 510	708 275		2-10-30 30	x		
CLEVELAND 722-487	yrs	6-47	209	188		Unfilled			order \$245
PVAL Hdwe		7-47	650	590					
LOUISVILLE 722-384	yrs	5-47 7-47	278 389	237		2-10-30 2-10-30	x	30	
Shoe D G Clo							x		
ST. LOUIS 722-582	yrs	6-47 7-47	1388 945	386		1-30-60 2-10-30	x	30-60	Slower order \$1170
Clo Shoe							x		
CHICAGO 723-1139	1945	6-47 7-47	306 New	386	25	1-30-60 60	x	30	Unearned Discount
Knit Hdwe							x		
NEW YORK-P 722-1251	1945	6-47 7-47	1490 400	98 44	98	2-10-30 30	x	15	
Clo D G Gen M	yrs	3-47 6-47	1250	154 683	154	2-10-30 2-10-30 30	x x x	60	Order \$150
Bu 55 RJ					3904 715				Slower

Safety in credit risks depends on teamwork. That's why credit men organized Credit Interchange. That's why you, as a member of the team, profit by the cooperation of all members.

FOR FULL INFORMATION, CONTACT THE
BUREAU SERVING YOUR AREA, OR WRITE

Credit Interchange Bureaus

NATIONAL ASSOCIATION of CREDIT MEN
512-514 Arcade Building . . . ST. LOUIS 1, MO.



Petroleum Division Holds 3-Day Session at Edgewater Beach

Chicago: The annual conference of the Petroleum Division of the National Association of Credit Men was held on September 15-17, at the Edgewater Beach Hotel, Chicago. R. C. Ward, Chairman of the Petroleum Division, was on hand to direct the three day conference.

R. L. Seaman, President of the Chicago Association of Credit Men, and E. B. Moran, Manager, Central Division NACM, started the program with greetings to the visiting oil men. After hearing reports of committees and officers and considering amendments to the by-laws, the Monday morning session adjourned for lunch, after which the delegates listened to an interesting address by Franklyn Waltman, Director of Public Relations, Sun Oil Co., Philadelphia, Pa. His subject was "Winning Friends for the Oil Business."

Speakers at the Monday afternoon session included L. W. Bernhard, Credit Coordinator, Standard Oil Co. of New Jersey; Eugene J. Benge, President, Benge Associates—Management Engineers, Chicago, and Henry H. Heimann, Executive Manager, National Association of Credit Men. The annual dinner was held Monday evening in the Marine Dining Room at the Edgewater Beach Hotel.

Speakers at the Tuesday morning meeting included B. L. Majewski, Vice-President, Deep Rock Oil Corporation, Chicago; Donald Russell, Pure Oil Company, Chicago, and F. E. Drake, Chief Engineer, Pacific Gas Corporation, New York. At the afternoon session talks were heard by Robert L. Gordon, Vice-President, Lawrence Warehouse Company, Chicago; J. A. Walker, General Credit Manager, Standard Oil Co., California, and H. F. Goodenberger, Manager, Budget Sales Department, Goodrich Associated Brands Division, Akron, Ohio.

On Wednesday morning R. C. Gordon, Division Credit Manager, Shell Oil Company, St. Louis, and Walter E. Hoadley, Jr., Industrial Economist of the Federal Reserve Bank, Chicago, gave an interesting talk. The balance of the morning session was devoted to a general forum discussion on subjects germane to the Petroleum Industry.

H. C. Schultz Named As Oshkosh President

Oshkosh: At the annual meeting of the Central Wisconsin Association of Credit Men, the following officers were elected for the ensuing year: President, Herbert C. Schultz, Badger Electric Supply Co.; Vice-President, Clarence M. Bursack, Oshkosh B'Gosh, Inc.; Treasurer, Charles W. Zemlock, The F. B. Ives Company, and Secretary-Manager, Charles D. Breon.

Executives School of Credit Scores Big Hit at Wisconsin University



R. C. Ward
Chairman, Petroleum Group

Fred J. Carpenter in New Position with the Vimcar Sales Corp.

Los Angeles: Western Division Vice-President, Fred J. Carpenter, has announced a change in his business connection. After 19 years with The National Supply Company at its Torrance, California headquarters, Mr. Carpenter has resigned to become affiliated with the Vimcar Sales Company and the Vimcar Steel Sash Company, of Los Angeles, California.

Mr. Carpenter will be in charge of all financial operations of these companies and will actively handle all credit matters for Vimcar Sales Company, through which a complete line of builders' hardware specialties is being marketed.

Mr. Carpenter is very enthusiastic over the prospects of this young but aggressively managed company, which has in a very few years established itself on a substantial basis.

Mr. Carpenter has had many years of credit experience with Johns-Manville Company, Fairbanks-Morse Company and The National Supply Company and has been an active member of local Credit Associations in New York, Baltimore, Chicago and Los Angeles. He recently completed a four year term as a Director of the National Association of Credit Men and is now Western Division Vice-President.

We all wish Fred much success in his new undertaking and are happy to know that he will continue in credit circles and in Association activities.

Seventy-eight Brave Severe Heat in Study During First Year

Madison, Wis.: Seventy-eight credit executives gathered together on the campus of the University of Wisconsin on August 17th for the first session of the Executives' School of Credit and Financial Management. The school, sponsored by the National Association of Credit Men, in cooperation with the School of Commerce, University of Wisconsin, was the first session of a three-year course planned by Dr. Carl D. Smith, Educational Director of the National Association of Credit Men with the assistance of Dr. Fayette H. Elwell, Dean of the School of Commerce of the University of Wisconsin. Several last minute cancellations reduced the number expected.

The students had been briefed in advance about many things, including the weather. One hint had been to "bring a fall suit in case the evenings get cool." So the first thing all the students did was to seek out the Pollyanna who had sent out that fatuous bit of advice, for the temperature on August 17th, forecast at 80, fooled all the weather men for miles around and leapt joyfully to a steaming, miserable 96.

The weather was a handicap throughout the course. The abnormally high temperature (That's what the Chamber of Commerce said!) continued almost without abate and made the work of the students doubly hard. In the first place, the instructors planned to, and did, "throw the book" at them, and saw to it that anyone who had come for a vacation would be disappointed; in the second place, many of them were out of school a sufficiently long time to have lost the habit of study, though not the determination. But add to that a prolonged, virulent heat wave, and you will see that every possible deterrent was put in their way.

Despite the weather, however, all the students put their backs into the work, and the instructors' reports were almost uniformly enthusiastic.

The main curriculum consisted of classes in Business Administration, Business Financing, Marketing and Credit Management Problems. The faculty invited to conduct the classes was a small, hand-picked group of first-rate authorities in their respective fields.

Thomas H. Nelson, President of Executive Training, Inc., and partner in the management consultant firm of Rogers & Slade, taught the course in Business Administration. Mr. Nelson has for

years been a consultant to a number of schools of commerce and engineering on education for executive leadership, and is a pioneer in the development of managerial conference programs.

Dr. Vergil Reed, instructor in Marketing, is one of the foremost authorities in his field. At present he is associate director of research for the J. Walter Thompson Co., in New York, and will soon set out for a research job in India. He was in 1940 charged with the full responsibility of the taking of the United States census.

Leland T. Hadley, Credit Manager of the Goodman Manufacturing Co., Chicago, was the instructor in Credit Management. He was the only member of the faculty who was also on the faculty of the pre-war institutes of credit management at Babson Institute of Business Administration.

Dr. Marshall D. Ketchum, who handled the course in Business Financing, has had a distinguished career in both the business and the academic worlds. He has been connected in various capacities with such firms and educational establishments as the Fowler Dry Goods Co., Syracuse, N. Y.; The Freedom Film Corporation, Rochester, N. Y., and the Universities of Chicago, Kentucky, Utah State and Duke.

On Monday evening, after the first day's work, during which they warily sized up their instructors (and found them not wanting) the students repaired to Room Two of the Law Building to confront a giant. Dr. Sumner Slichter, Lamont University Professor of Economics at Harvard University had come over from his summer camp across the lake to talk on the Economic Phase of the Labor Situation, and he held his audience stock-still in their seats for two hours. Dr. Slichter brought out the rather unusual point that people who live on dividends ought, since the cost of living has gone up so much, to be granted a

Southeastern Credit Conference to Be Held in Birmingham, Oct. 16-17

Birmingham: The Southeastern Credit Conference will be held at Birmingham, on October 16-17. The Alabama Association of Credit Men will be hosts to the delegates. Because of the changing trend of our economy, a large attendance is expected.

Birmingham, which is centrally located in the area, affords much in the way of unusual sights for visitors to the city. How iron, steel, portland cement and kindred products are made from raw materials dug from the ground in the vicinity will be just some of the sights viewed by the visitors.

The theme of the conference is "Credit—Today and Tomorrow," and emphasis will be placed on the future outlook for credit and business in general. The meeting is timely and the hosts are prepared for a large number of registrations.

cost-of-living bonus!

The following evening, Tuesday, Earl O. Shreve, President of the Chamber of Commerce of the United States, spoke on the responsibilities of management. His talk was well received and gave rise to a lively discussion. Mr. Shreve spent the day with the men and apparently enjoyed talking with them as they did with him. It was a busy day for him. He was honor guest at a luncheon at which the local press, chamber of commerce officers and the university authorities were present; later he transcribed his speech for use on WHA the following day, and later still, as we have said, he stood a barrage of questions for two hours.

While all this was going on, one student, unobtrusive, except that he was

wearing a coat and tie, was busily imbibing all that was offered to him. This student, one Henry H. Heimann, took the spotlight on Wednesday with a talk on constructive credit management, which was most enthusiastically received. He gave the students something to bite on, something that went home to them, straight hints from an experienced credit man on how to be a good or, if you are already good, a better credit man, hints which the students were vocal in appreciating.

The big moment of Mr. Heimann's talk, however, was at the very beginning when, for the first time since his arrival, he took off not only his coat but his tie, and tore off the button of his shirt in his eagerness to get rid of the wretched thing.

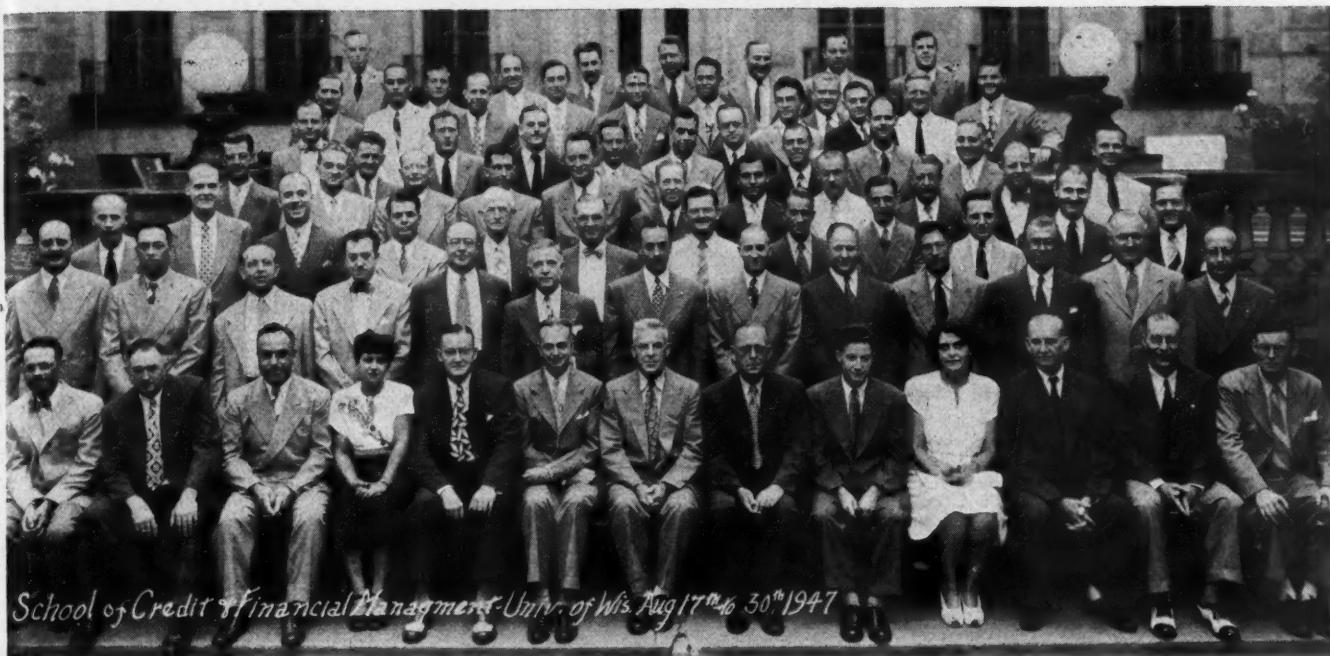
Not so unobtrusive was another temporary student who popped in and out of classes the following day. He did this all morning and spent a considerable part of the afternoon apologizing to the instructors for doing so. His excuse was that he only had one day to spare and wanted to see as much as one could see in one day. He, too, was no usual student and that evening David A. Weir rose to speak to the evening round table on Credit and the Human Factor. His talk, too, was very well received.

The following week's round tables featured addresses by Kenneth W. Tibbitts, Manager of the Steel Department, National Credit Office, on "Development of Credit Judgment"; Dr. Harry G. Guthmann, Professor of Finance, School of Commerce, Northwestern University, on "Pitfalls to Avoid During the Next Five Years." The last address of the session was delivered by Dr. Alfred P. Haake, Industrial Economist and Consultant for General Motors Corporation, on "Free Men or Slaves?"

All in all it was a good first year. Next year will see all the kinks ironed out and all this year's experience put to good use.



Dr. Carl D. Smith "briefs" the Students at the Executive School on Sunday Night on the Program for the Memorable Two Weeks



School of Credit & Financial Management, Univ. of Wis. Aug 17th to 30th 1947

WHO'S WHO AT THE EXECUTIVES' SCHOOL

Front row: A. B. Crowell, Boston; A. E. Blake, Sherrard, W. Va.; A. J. Luppino, Pittsburgh; Mrs. Luppino; T. H. Nelson, New York; Dr. Marshall D. Ketchum, Chicago; Dr. Carl D. Smith, New York; Leland T. Hadley, Chicago; Dr. Vergil D. Reed, New York; Helen Gunn, Atlanta; H. H. Heimann, New York; C. B. Rockstad, Portland, Ore.; Leslie E. Jones, New York.

2nd row: C. J. Overberg, Louisville; S. A. Magnusson, Fargo, N. D.; K. G. MacKay, Boston; M. Archer, Newark, N. J.; C. E. Wolfinger, Philadelphia; W. R. Dunn, New York; B. B. Warren, New York; A. G. Precht, Cleveland; Leo E. Jones, Shreveport; T. H. Scott, Tulsa; L. T. Ritzel, Minneapolis; M. A. Frost, Minneapolis; L. C. Jagdfeld, Fond du Lac.

3rd row: L. T. Kendrick, Atlanta; H. S. Tholen, Elgin, Ill.; O. E. Barnum, Pittsburgh; G. E. Tomberlin, Atlanta; J. J. Corbett, St. Paul; K. S. Thomson, Cleveland; W. W. Thomas, Cleveland; F. J. Flom, Detroit; S. C. Hieronymus, Tulsa; S. G. Steiner, New York; L. M. White, Atlanta; R. I. Hardy, Chicago.

4th row: H. G. Schmalien, Fargo; C. H. Harn, Dayton; J. F. Matthews, Oconomowoc, Wis.; S. N. Belden, Topeka; W. S. Dunker, Cleveland; E. Warrick, New Orleans; W. C. Malik, Chicago; C. E. Ericson, N. Chicago; L. Cooke, Ft. Worth; R. E. Underwood, Chicago; L. E. Loth, Worcester, Mass.

5th row: B. H. Peterson, Grand Rapids; J. W. Stout, Tulsa; W. P. Covey, Minneapolis; E. H. Figush, Cleveland; D. H. Hotchkiss, Cleveland; P. C. Balchly, St. Louis; T. A.

Shaw, New Orleans; J. W. Doran, Houston; S. W. Beal, Pittsburgh; J. A. Heule, Milwaukee.

6th row: R. L. Dading, New York; N. F. Litkenhaus, Cincinnati; D. F. Nickel, Grand Rapids; W. M. Church, Bloomington, Ill.; S. H. Johnson, Birmingham, Ala.; J. E. Vogel, New York; P. L. Belanger, Bristol, Conn.; T. M. Turner, New York; G. H. Smith, Seymour, Ind.; V. L. Hunt, Syracuse, N. Y.; C. Hamill, Elgin, Ill.

7th row: E. W. Parker, Ft. Wayne; A. J. Smith, New York; R. W. Johnstone, Worcester; J. R. Woodward, Pittsburgh; H. E. Heath, Atlanta; T. R. Gerlach, New York; J. W. Marsteller, Cleveland; E. W. Taylor, Boston.

Elmira Making Big Plans for Tri-State Conference, Oct. 16-18

Elmira: Plans are now being completed for the Annual Tri-State Conference of District No. 2 which will be held here on October 16, 17, and 18. The Program Committee is hard at work obtaining speakers of prominence for this three-day session. The sessions will be held at the Mark Twain Hotel which is considered one of the best in the state.

The regular fall business meeting of the Councillors' Council will be held on Thursday afternoon, October 16.

A "Get-Together Party" will be held on Thursday evening, October 16. The regular Conference Banquet will be held Friday evening, October 17.

Representatives from the Credit Women's Clubs throughout New York, New Jersey, and Eastern Pennsylvania will hold a Conference Breakfast on Saturday morning, October 18.

The Elmira credit men and their wives are planning a considerable program of entertainment for the visitors.

L. D. Duncan, First Vice-President of the New York Credit Men's Association, and Credit Manager of the National Distillers Products Corporation, is a member of the National Membership Committee. Through error his name was omitted in the published list of this committee in the August issue.

Russell F. Coonley Named As Syracuse President

Syracuse: The Syracuse Association of Credit Men of Syracuse, N. Y., at a recent Open Forum Meeting heard talks by five members on the topic of "My Most Interesting Credit Experience."

The following members were elected to office for the year 1947-48:

President, Russell F. Coonley, Lennox Furnace Co.; 1st Vice-Pres., Frederick P. Richter, Onondaga Pottery Co.; 2nd Vice-Pres., Charles V. Lane, The Syracuse Trust Co.; Treasurer, John H. Curling, Broome Distributing Co.; Secretary, Newton D. Bartle.

Our Open Forum meeting was voted a huge success.

Sam Schneider Tells Sales Executives Why Business Houses Fail

Louisville: In an address before the Sales Executives Council of the Louisville Board of Trade, Secretary-Manager Sam Schneider of the Louisville Credit Men's Association, presented the following as the more common causes of business failures:

Inefficient management
Lack of capital
Bad debt losses
Failure to take a legitimate profit
Increased cost of doing business
Poor accounting records and poor collections

Inexperience
Poor business location
Dishonesty and fraud

No matter what policy your company follows in developing credit information, it is to the interest of the salesman to see that dependable data on each new customer accompanies the order. If your salesman spends half an hour selling the customer, it is certainly worth five minutes more to make sure that there is no hitch or delay in the approval of the credit.

Houston Women to Sponsor Breakfast at Southwest Conference

Houston: The Wholesale Credit Women's Club of Houston had a most interesting meeting in August when Mrs. Edna Gaston Hoffman, Immediate Past President of the Texas Federation of Business and Professional Womens Clubs, gave a talk on "Better Business Women for a Better Business World." Mrs. Hoffman's subject was very timely as we awarded our first scholarship at this meeting.

Highlight for September is the Credit Women's Breakfast to be held during the Southwest Conference in Fort Worth on September 27, which we have the honor to sponsor in connection with the Fort Worth Association. Mr. Henry Heimann, Executive Manager, will be guest speaker. Mr. Charles Raardon, President, National Association of Credit Men, will give an address, and Mrs. Opal Stemmer, National Executive Committee, Credit Women's Clubs, will also speak. Invitations have been sent out to all credit women in the Southwest District. The Houston Club is sending a number of representatives to the Southwest Conference.

Also in September, the Houston Club will sponsor Bosses' Night; our regular dinner meeting at the Texas State Hotel will be arranged for the pleasure and entertainment of our bosses. Guest speaker will be Mr. Morris D. Meyer, prominent attorney. Mr. Meyer has been connected with Association work for many years, having been Secretary-Manager of the local Association, and is well qualified to speak on all matters pertaining to credit work.

The Houston Club is also proud to report it has secured five new members for the Association, and has prospects of others later in the year. As we were organized only in late January, 1947, we feel that we have just begun.

* * *

Duluth: Duluth Credit Women, who recently formed the newest of the Credit Women's Groups, held a dinner meeting on July 16 at the Spalding Hotel, Duluth. Speaking on behalf of the Duluth-Superior District Credit Association, Mr. C. N. Boyd, President, commended the charter members and predicted successful growth and development of the organization. Mr. E. G. Robie, Secretary-Treasurer of the DSDCA, extended hearty greetings and offered cooperation and counsel in launching the new activity. Miss Blanche M. Scanlon, one of six Minneapolis credit women who drove to Duluth to participate, presented a gavel to the President, Mrs. Mary Reedy, Klearflax Linen Looms, Inc. The other officers are: Vice-President, Elsie M. Melby, Scott Graff Co.; Secretary, Elvera Christofferson, Northern Liquor

CREDIT CAREER



Frank E. Jerome, Vice-President of the Seattle-First National Bank, Seattle, Washington, began his banking career with the Seattle-First National Bank in 1919 as a messenger. He has always specialized in the credit field and for several years was manager of the credit department before he was promoted to a Vice-Presidency, where he now serves as one of the loan officers of the bank and also supervises credit.

Mr. Jerome has served as a Director of the Seattle Association of Credit Men on two different occasions and was president of the Association in 1942-3. He has attended several national conventions, where he took an active part in the bank credit group activities.

In March of this year he was one of the leading speakers at the convention and exposition of the National Frozen Food Industry in San Francisco. He is also a Director of the Robert Morris Associates.

Co.; Treasurer, Virginia Smith, Northern Drug Company.

Cleveland: The Summer months were busy ones for the Cleveland Credit Women's Club, the first activity of the season being the radio broadcast, "Quiz of Two Cities," held on Monday, July 7th, with members of the Detroit Credit Women's Club participating. With the temperature sizzling at 94 degrees the girls worked feverishly the entire week of August 11th collecting items for their Rummage Sale which was held on Friday and Saturday, August 15th and 16th. They report another real financial success. Regular meetings of the club were resumed on Tuesday September 9th. State Senator Miss Margaret Mahoney will be the guest speaker.

Los Angeles Tests Punch-Card System on its Interchange

Los Angeles: The eyes of all Interchange Bureaus are on this department of the Los Angeles Credit Managers' Association when operations started September first using the new Remington-Rand equipment.

Today Credit Interchange reports are the finest service given the credit executive for the purpose of checking extensions of credit. That the service now rendered can be improved goes without saying—new inventions, new methods are constantly being devised for the improvement of any service. The directors of the Los Angeles Credit Managers Association, desirous of giving their members the best of everything, saw in the Remington-Rand System the possibility of increasing the speed of INTERCHANGE service and possible economies in operation.

After thorough research by the Board of Governors of Interchange and the Association directors in cooperation with Mr. Edward W. Green of the Los Angeles office of Remington-Rand, Inc., 711 South Olive Street, a contract was signed covering the installation of the equipment, which was installed early this month.

The operation is a substitution of mechanical for manual wherever possible in INTERCHANGE setup. Comment cards will be substituted for the usual ticket and will be punched with the member's number and process number. This will permit sorting for mailing in numerical order in a sorting machine capable of handling 450 cards a minute. The same operation takes place on the return of the card, sorting by process dates.

A master card is made for the inquiry ticket. The name and address of the subject is key-punched in the master card, which is placed in an Interpreting Machine which mechanically prints name and address on required number of cards to be sent to members.

When comment cards are returned they are key punched with the information written by member and then placed in the Processing Machine which automatically prints the report at the rate of 80 lines per minute.

All parties concerned realize there will be difficulties to overcome and kinks to iron out which will take time.

Illinois Conference, October 22

Credit executives in Illinois are being urged to attend an all-day session of the Illinois State Credit Conference to be held Wednesday, October 22, at the Morrison Hotel, Chicago. It will be followed in the evening by the annual fall dinner meeting of the Chicago Association of Credit Men.

Chicago ACM. Starts Educational Program on September 22nd

Chicago: By far the most extensive educational program presented by the Chicago Association of Credit Men has been planned by the Educational Committee of which Carl I. Johnson, the Continental Illinois National Bank and Trust Company of Chicago, is chairman.

The annual basic and refresher course in Credits and Collections opens Monday evening, September 22 and continues for seven successive weeks, closing with a complimentary dinner to the students and awarding of university scholarships provided by the Chicago Association of Credit Men and the Credit Women's Club of Chicago. The speakers on the program are credit executives of the Association who offer their services to the students and discuss their actual daily credit experiences.

The Association is cooperating with the Northwestern University School of Commerce in offering members advanced evening classes covering accounting, business organization, business law, business letters, credits and collections, economics, finance and banking and office management, the first semester opening September 24.

The Chicago Chapter of the National Institute of Credit is also cooperating with the Chicago Association of Credit Men and Northwestern University School of Commerce in aiding the students in their studies and encouraging them to attain the Associate and Fellow Awards of the National Institute.

Plans are also in the making for courses in insurance, foreign trade and effective speaking to be announced later.

Boston University to Give Credit Courses

Boston: J. Alfred Murphy, chairman of the educational committee of the Boston Association of Credit Men, announces that the Boston chapter of the National Institute of Credit has arranged for classes in credits and financial management, to be held at Boston University starting September 22, with registration closing by September 15.

To promote this educational feature, the Boston Association distributed an attractive folder to all members describing the various courses offered at Boston University.

Director Hoff at St. Paul

St. Paul: John E. Hoff of Duluth, National Director for District Eight, will be the speaker at the September meeting of the St. Paul Association of Credit Men, scheduled for September 9 at the White Pine Inn at Bayport.

Beg Pardon! New Orleans

The very attractive picture presented on the cover of the August issue of *CREDIT & FINANCIAL MANAGEMENT* was provided by the Port of New Orleans through the co-operation of John B. Ferran, Director of Public Relations. Through an error by the printer due credit for this picture was omitted on the August cover, so we hasten to present our apologies to Mr. Ferran and to give appropriate credit to the Port of New Orleans Commissioners, one of whom is our former National President, Robert L. Simpson.

St. Louis to Be Host to October Conference

St. Louis: Plans are now being completed for the holding of the Annual Tri-State Conference (Missouri, Kansas, Oklahoma) at St. Louis in October. The Councillors of the Associations at Oklahoma City, Wichita, St. Joseph, Kansas City, and St. Louis will meet shortly to complete program plans. Reports from the cities in the Conference area indicate that attendance at this Conference will be quite large.

Columbus Will Be Host to Conference of Ohio Valley Credit Leaders

Columbus: The Columbus Credit Association will be host to the Ohio Valley Regional Conference here on October 24-25. A program on which several outstanding speakers will appear has been arranged for Friday, October 24. The highlight of the Saturday morning program will be a panel discussion of subjects of importance to the active credit executive. Among those already scheduled to take part in this panel are Dr. Theodore Beckman, Ohio State University; A. J. Battista, Assistant Vice-President, Union Bank of Commerce, Cleveland; Hugh Wells, of Cleveland; Herbert Lape, Jr., of the Julian & Kokenge Company, Columbus; and W. B. White, of Smith Brothers Hardware Company, Columbus.

Oshkosh to Be Host District Conference

Oshkosh: The Wisconsin-Northern Michigan Credit Conference will be held here early in November. Herbert C. Schultz, President, Central Wisconsin Association of Credit Men, has appointed special committees to arrange a program. The annual dinner meeting will be addressed by Henry H. Heimann, Executive Manager NACM.

Souvenir Programs of Golden Anniversary Convention held in New York May 11-15

are available to members who were unable to attend this memorable Credit Congress

The Souvenir Programs contain a history of NACM by J. Harry Tregoe, Minutes of the first Association Convention in Toledo in 1896, and a complete program of the big New York Convention.

A beautifully bound, 256 page, Souvenir Program. Price \$1.50 (Please send check with order.)

Publications Department

NATIONAL ASSOCIATION OF CREDIT MEN
One Park Avenue

New York 16, N. Y.

Bulk Sales Law in Illinois Amended to Aid Creditor

Chicago: Under the Illinois bulk sales law enacted in 1913 and sponsored by the Chicago Association of Credit Men, the buyer of a stock of merchandise, fixtures, "or other goods and chattels," was required, at least five days before the consummation of the sale, to demand of and receive from the seller a list of his creditors, their addresses and the amount owing to each one. Also, the buyer was required, at least five days before taking possession of the stock and at least five days before the payment or delivery of the purchase price, to send a notice in writing to each creditor naming the price, terms and conditions of the sale. Otherwise the sale was fraudulent and void as against the creditors.

An amendment to the present law was sponsored by the Chicago Association of Credit Men at the recent session of the Illinois State Legislature, closing June 30. The amendment was prepared under the direction of the Legislative Committee of 1946-47 of which George B. Sturtz, Joslyn Manufacturing and Supply Company, was chairman. Its passage during the closing days of the session was in charge of the Legislative Committee of 1947-48 of which L. K. Hitchings, Caspers Tin Plate Company, is the chairman.

Under the revised law now in effect, the time "five days" in which the buyer must demand of and receive from the seller a list of his creditors is changed to "10 days." Likewise the time in which the buyer must send notices to the creditors naming the price, terms and conditions of the sale has been changed from "five days" to "10 days."

This revision of the bulk sales law now gives the credit executive a greater opportunity of protecting his accounts involved in such proceeding.

Parkersburg-Marietta Annual Fish-Fry Held

Marietta: The Parkersburg-Marietta Association of Credit Men held its annual fish fry at the cottage of the Marietta Concrete Corporation, on the Muskingum River, Marietta, Ohio.

The fish fry committee, consisting of Carl Robinson, of the Crescent Supply Company; Carl M. Funk, Credit Bureau, and Karl Rock, of the Marietta Concrete Corporation, made the necessary arrangements for the event.

The entire membership and a group of people numbering about 70 enjoyed the evening to the fullest extent. A "hillbilly" band from Lowell, Ohio, together with a "caller" provided music for a square dance. Ed Cottle, of Marietta, Ohio, put on the fish fry.

Letters to the Editor

Mr. Richard G. Tobin
National Association of Credit Men
One Park Avenue
New York, N. Y.

Dear Mr. Tobin:

In the August issue just received, I have been reading an article and wish to refer to page ten, written by Mr. Owen S. Dibbern

In the top paragraph explaining the cash discount proposition, he writes the customer that he is crediting the account by the face of the check and not allowing the cash discount. I am taking it for granted the invoice had not matured.

I hope Mr. Dibbern will pardon me when I state I do not think a check should be accepted without allowing the cash discount until the account matured. Isn't it just as unfair to accept a customer's check, say thirty days before the maturity of the invoice and refuse to allow the cash discount as it is for the customer to claim cash discount not earned? Our policy has been when we refuse to allow the cash discount, to invariably return the check for reasons above stated.

Very truly yours,
C. S. Fensom
Watkins-Cottrell Co.
Richmond, Va.

P. S.

Dear Mr. Tobin:

Since writing the above letter, I have read article on page seventeen by Mr. Carl B. Everburg. Please note the last paragraph under the head of "Second Supposed Situation". That paragraph, it seems to me, would relieve a debtor from paying the cash discount when his check is accepted and used.

Credit and Financial Management
Editorial Offices
1 Park Ave.
New York 16, N. Y.

Gentlemen:

In reading through the August issue of Credit and Financial Management, I find an Article captioned "NOTES ON NOT BEING MISLED" or What Does An Auditor's Statement Mean.

I have often wondered what an Auditor's statement means. I men-

tion this because I was in the Public Accounting profession for a number of years before assuming my present responsibility. I was on the staff of perhaps the largest accounting firm in the United States in its Pittsburgh office. Later I became associated with one of the smaller organizations, but none the less very active in this district.

From my experience on the staffs of these two organizations, I have found that in some instances real honest to goodness audits were not made, and these firms would certify to the correctness of the statement under observation.

I have known cases where a Certificate was added to the report, and it was signed by one of the girls in the office and not by one of the Certified Public Accountants. It would appear to me that the same results from an audit could be obtained from a good general Accountant and not necessarily a higher touted C. P. A. This is my humble opinion from experience.

Yours very truly,
GEO. WEHN & CO.
D. O. KIRK
Auditor-Credit Manager

MEMBERSHIP PROGRESS REPORT

May 1, 1947 to August 30, 1947

COMPARISON

	Net Gain	Total Aug. 30	Percent
CLASS A			
Rochester	22	523	104.39
Louisville	31	1128	102.83
Chicago	46	1872	102.51
CLASS B			
San Diego	24	319	108.13
Newark	15	365	104.28
Baltimore	16	491	103.36
CLASS C			
Des Moines	24	214	112.63
Toledo	16	193	109.03
Lexington	9	192	105.46
CLASS D			
Washington	6	110	105.45
Salt Lake City	9	182	105.20
Honolulu	5	145	103.87
CLASS E			
Albuquerque	19	79	131.66
Tulsa	8	60	115.38
Columbus	9	78	113.04
CLASS F			
Bristol	6	30	125.00
Springfield, Mo.	3	30	111.11
Clarksburg	2	27	108.00